

The background of the entire page is a close-up, slightly blurred image of the Norfolk City flag. The flag features a blue field with a yellow eagle, and a red field with a yellow eagle. The colors are vibrant and the texture of the fabric is visible.

# **Comprehensive Annual Financial Report**

City of Norfolk,  
Virginia

FOR FISCAL YEAR  
ENDED JUNE 30, 2005



**City of Norfolk, Virginia  
Comprehensive Annual  
Financial Report  
For the Fiscal Year Ended  
June 30, 2005**

**Prepared by:  
The Department of Finance and Business Services  
Steven G. de Mik, Director of Finance & Business Services  
Tom Lewis, Assistant Director of Finance  
Larry Baker, Accountant IV**



**CITY OF NORFOLK, VIRGINIA  
COMPREHENSIVE ANNUAL FINANCIAL REPORT  
For the Fiscal Year Ended June 30, 2005  
TABLE OF CONTENTS**

**INTRODUCTORY SECTION:**

Municipal Officials	
Organization Chart	
Transmittal Letter	
Certificate of Achievement for Excellence in Financial Reporting	

<u><b>Exhibit</b></u>		<u><b>Page</b></u>
	<b>FINANCIAL SECTION:</b>	
	<b>Independent Auditors' Report</b> .....	1
	<b>Management's Discussion and Analysis</b> .....	3
	 <b>Basic Financial Statements:</b>	
	<b>Government-wide Financial Statements</b>	
1	Statement of Net Assets .....	17
2	Statement of Activities .....	18
	 <b>Fund Financial Statements:</b>	
	<b>Governmental Funds:</b>	
A-1	Balance Sheet – Governmental Funds .....	19
	Reconciliation of the Balance Sheet of Government Funds to	
A-2	the Statement of Net Assets .....	20
A-3	Statement of Revenues, Expenditures and Changes in Fund Balances.....	21
	Reconciliation of the Statement of Revenues, Expenditures and Changes	
A-4	in Fund Balance to the Statement of Activities .....	22
	<b>Proprietary Funds:</b>	
B-1	Statement of Net Assets .....	23
B-2	Statement of Revenues, Expenses and Changes in Fund Net Assets.....	24
B-3	Statement of Cash Flows .....	25
	<b>Fiduciary Funds:</b>	
C-1	Statement of Fiduciary Net Assets.....	26
C-2	Statement of Changes in Fiduciary Net Assets – Pension Trust Fund.....	27
	 <b>Component Units:</b>	
D-1	Statement of Net Assets .....	28
D-2	Statement of Activities .....	29
	 <b>Notes to the Financial Statements</b>	30



**CITY OF NORFOLK, VIRGINIA**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**For the Fiscal Year Ended June 30, 2005**  
**TABLE OF CONTENTS**

**Required Supplementary Information**

	Schedule of Funding Progress for Retirement Plans.....	83
<b>E-1</b>	Schedule of Revenue – Budget and Actual – General Fund .....	84
<b>E-2</b>	Schedule of Expenditures – Budget and Actual – General Fund .....	85
	Notes to Required Supplementary Information	86

**Other Supplementary Information**

<b>F-1</b>	Combining Balance Sheet – Nonmajor Governmental Funds.....	87
<b>F-2</b>	Combining Statement of Revenue, Expenditures and Changes in Fund Balance – Nonmajor Governmental Funds.....	88
<b>G-1</b>	Balance Sheet – Agency Funds.....	91
<b>G-2</b>	Statement of Changes in Assets and Liabilities – Agency Funds.....	92
<b>H-1</b>	Combining Statement of Net Assets – Internal Service Funds.....	93
<b>H-2</b>	Combining Statement of Revenues, Expenses and Changes in Fund Net Assets – Internal Service Funds.....	94
<b>H-3</b>	Combining Statement of Cash Flows – Internal Service Funds.....	95
<b>I</b>	Schedule of Expenditures of Federal Awards .....	96
	Note to Schedule of Expenditures of Federal Awards	99
<b>J-1</b>	Schedule of Revenues and Expenditures – Budget and Actual - Special Revenue Funds.....	100
<b>J-2</b>	Schedule of Revenues and Expenditures – Budget and Actual - Internal Service Funds.....	107
<b>J-3</b>	Schedule of Expenditures – Budget and Actual – Capital Projects Fund..	109





**CITY OF NORFOLK, VIRGINIA**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**For the Fiscal Year Ended June 30, 2005**  
**TABLE OF CONTENTS**

<u><b>Table</b></u>		<u><b>Page</b></u>
	<b>STATISTICAL SECTION (Unaudited)</b>	
<b>I</b>	General Governmental Expenditures by Function .....	111
<b>II</b>	General Governmental Revenue by Source .....	112
<b>IIA</b>	General Governmental Tax Revenue by Source .....	112
<b>III</b>	Real and Personal Property Tax Levies and Collections .....	113
<b>IV</b>	Assessed Value of Taxable Property .....	114
<b>V</b>	Direct Property Tax Rates .....	115
<b>VI</b>	Top 10 Principal Real Property Taxpayers .....	116
<b>VII</b>	Computation of Legal Debt Margin .....	117
<b>VIII</b>	Ratio of Net General Bonded Debt to Assessed Value and Net Bonded Debt per Capita .....	118
<b>IX, X</b>	Revenue Bond Coverage .....	119
<b>XI</b>	Ratio of Annual Debt Service Expenditures for General Bonded Debt and Other Debt to Total General Expenditures .....	120
<b>XII</b>	Computation of Direct Bonded Debt .....	121
<b>XIII</b>	Demographic Statistics .....	122
<b>XIV</b>	Property Value, New Construction and Bank Deposits .....	123
<b>XV</b>	Water System Statistics .....	124
<b>XVI</b>	Parking System Statistics.....	125
<b>XVII</b>	Miscellaneous Statistics .....	126

**OTHER REPORTS OF INDEPENDENT AUDITORS**

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government</i> <i>Auditing Standards</i> .....	128
Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with Circular OMB A-133.....	130
Schedule of Findings and Questioned Costs.....	132
Corrective Action Plan.....	140
Summary Schedule of Prior Audit Findings.....	142



**CITY OF NORFOLK, VIRGINIA**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**June 30, 2005**  
**Municipal Officials**

**Honorable City Council**

President and Mayor  
Vice Mayor  
Member  
Member  
Member  
Member  
Member

Paul D. Fraim  
Daun S. Hester  
Anthony L. Burfoot  
Paul R. Riddick  
Donald L. Williams  
Barclay C. Winn  
Randy R. Wright

**City Manager**

Regina V.K. Williams

Assistant City Manager  
Assistant City Manager  
Assistant City Manager  
Assistant City Manager

La Verne P. Diggs  
Nancy M. Johnson  
Jeffrey B. Muzzy  
Stanley A. Stein

**Director of Finance**

Steven G. de Mik, CPA

City Assessor  
City Attorney  
City Auditor  
City Clerk  
City Treasurer  
Commissioner of the Revenue  
Director of Budget & Management  
Director of Civic Facilities  
Director of Communications & Public Relations  
Director of Economic Development  
Director of Facility & Enterprise Management  
Director of Fire & Paramedical Services  
Director of Human Resources  
Director of Human Services  
Director of Information Technology  
Oversight of Intergovernmental Programs  
Director of Libraries  
Acting Director of Neighborhood & Leisure Services  
Director of Maritime Center (Nauticus)  
Director of Planning & Community Development  
Director of Public Health  
Director of Public Works  
Director of Utilities  
Police Chief  
Registrar of Voters

Wayne N. Trout  
Bernard A. Pishko  
John H. Sanderlin, Jr.  
Breckenridge R. Daughtrey  
Thomas W. Moss, Jr.  
Sharon M. McDonald  
Marcus D. Jones  
John S. Rhamstine  
Terry L. Bishirjian  
Roderick S. Woolard  
Stanley A. Stein  
Chief Edward L. Senter, Jr.  
Nancy N. Olivo  
Clark N. Earl  
Hap M. Cluff  
Ronald H. Williams, Jr.  
Norman L. Maas  
La Verne P. Diggs  
Richard C. Conti  
Timothy Polk  
Valerie A. Stallings, M.D.  
John M. Keifer  
Kristen M. Lentz, P.E.  
Bruce P. Marquis  
Elisa J. Long



**CITY OF NORFOLK, VIRGINIA**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**June 30, 2005**  
**Municipal Officials**

**JUDICIAL**  
**Fourth Judicial Circuit Court**

Chief Judge  
Chief Judge  
Judge  
Judge  
Judge  
Judge  
Judge  
Judge  
Clerk

Joseph A. Leafe  
Norman A. Thomas  
Junius P. Fulton, III  
Charles D. Griffith, Jr.  
Charles E. Poston  
Jerome James  
Everett A. Martin, Jr.  
John C. Morrison, Jr.  
Lydia C. Taylor  
George E. Schaefer

**Norfolk General District Courts**

Chief Judge, Civil Division  
Judge, Civil Division  
Judge, Civil Division  
Judge, Criminal Division  
Judge, Criminal Division  
Judge, Traffic Division  
Judge, Traffic Division  
Clerk

Louis A. Sherman  
Gwendolyn J. Jackson  
Bruce A. Wilcox  
Ray W. Dezern, Jr.  
Norman A. Thomas  
Alfred M. Tripp  
James S. Mathews  
Thomas E. Baldwin

**Norfolk Juvenile and Domestic Relations District Court**

Chief Judge  
Judge  
Judge  
Judge  
Judge  
Clerk

William O. Hawkins  
M. Randolph Carlson, II  
Joseph P. Massey  
Joan C. Skeppstrom  
William P. Williams  
Debra A. Hill

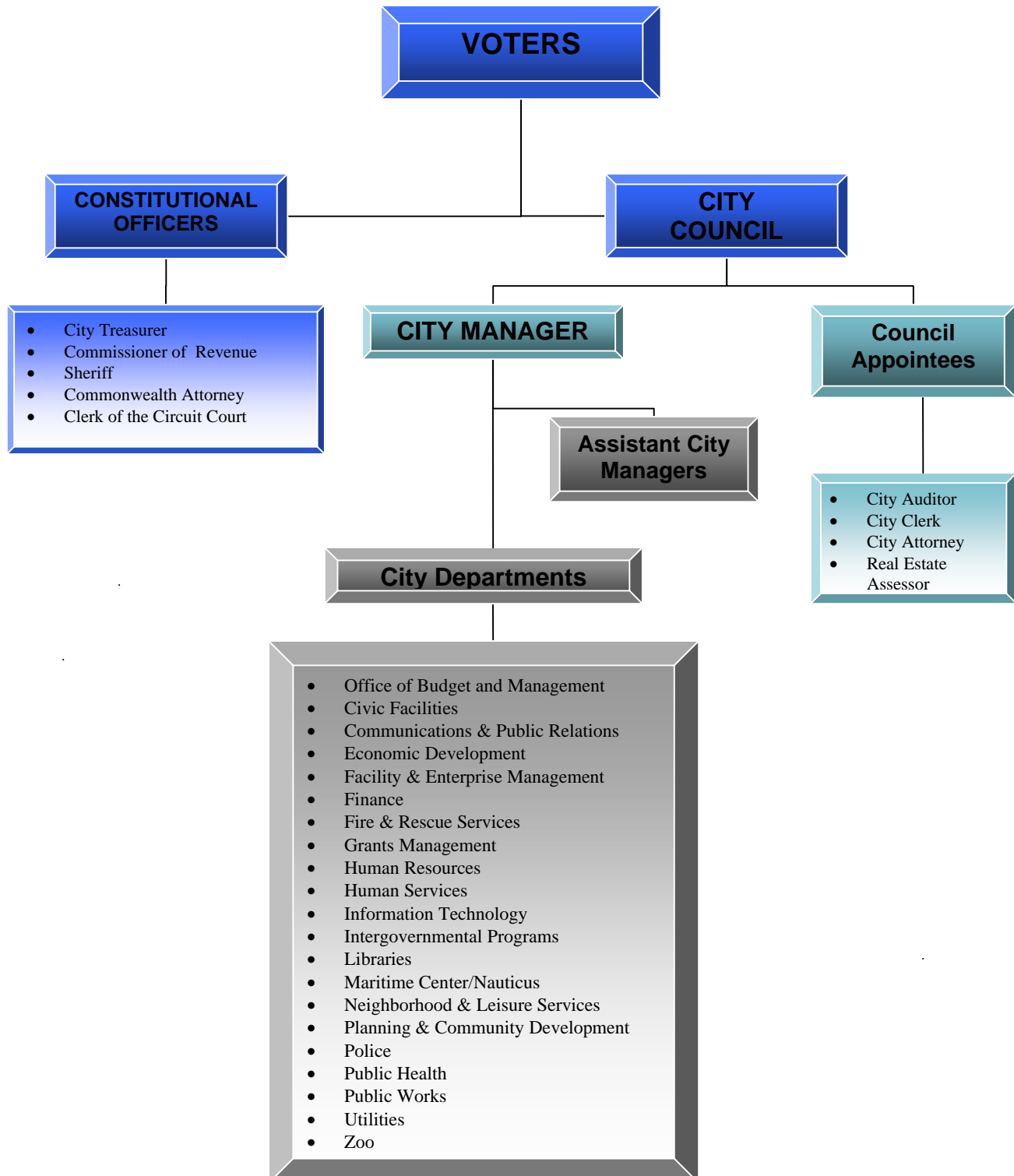
**Other Judicial Officials**

Sheriff  
Commonwealth's Attorney

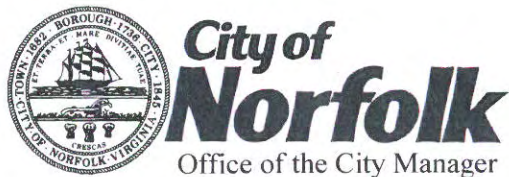
Robert J. McCabe  
John R. Doyle

**CITY OF NORFOLK, VIRGINIA  
COMPREHENSIVE ANNUAL FINANCIAL REPORT  
JUNE 30, 2005**

**ORGANIZATIONAL  
CHART**







December 29, 2005

To the Honorable Council and  
Citizens of Norfolk, Virginia:

The Comprehensive Annual Financial Report (CAFR) of the City of Norfolk (the City) for the fiscal year ended June 30, 2005 is hereby submitted. State law and the City's charter require the City to publish, at the close of each fiscal year, a complete set of financial statements presented in conformity with accounting principles generally accepted in the United States of America (GAAP). This report is published to fulfill that requirement.

Management assumes full responsibility for the completeness and reliability of the information presented in this report, based upon a comprehensive internal control framework designed both to protect the City's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the objective is to provide reasonable rather than absolute assurance that the financial statements are free from material misstatement.

McGladrey & Pullen, LLP, a firm of licensed certified public accountants has issued an unqualified ("clean") opinion on the City's financial statements for the fiscal year ended June 30, 2005. The independent auditor's report is located in the financial section of this report.

The independent audit of the financial statements of the City was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration

of federal awards. These reports are available in the "Other Reports of Independent Auditors" section of this report.

Management's Discussion and Analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. This letter of transmittal is designed to complement MD&A and should be read in conjunction with it.

### ***PROFILE OF THE CITY***

The City of Norfolk was established as a town in 1682, as a borough in 1736, and incorporated as a city in 1845. It lies at the mouths of the James, Elizabeth and Nansemond Rivers and the Chesapeake Bay, and is adjacent to the cities of Chesapeake, Portsmouth, and Virginia Beach. There are 66 square miles included in the City's corporate boundaries. The City's population is currently estimated to be 241,727.

The City is organized under a Charter, granted by the General Assembly of Virginia in 1918, which authorizes a council-manager form of government. The City Council exercises all of the governmental powers conferred upon it and consists of seven members elected to office under a ward system, with two of the seven members elected from two larger super wards.

The City Council elects a Mayor and Vice Mayor from among its members. Among the City officials appointed by the City Council is the City Manager, the administrative head of the municipal government. The City Manager carries out policies of the City Council, directs business procedures, and appoints, with the power to remove, the heads of





Honorable City Council

departments and other employees of the City, except those otherwise specifically covered by statutory provisions.

Cities in Virginia have jurisdiction over the entire area within their boundaries and operate independently from a county government. There are no overlapping jurisdictions. Consequently citizens of a Virginia city are not subject to overlapping debt or taxation.

The City provides a full range of services including: police protection; fire and paramedical services; public health and social services; planning and zoning management; code enforcement; storm water management; street maintenance; traffic control; parks and cemeteries operations and maintenance; recreation and library services; solid waste disposal; general administrative services; water and wastewater utilities; and parking facilities.

The City is also financially accountable for a legally separate school district, the Norfolk Redevelopment and Housing Authority (NRHA), and the Norfolk Community Services Board. Additional information on these legally separate entities can be found in Note I of the notes to the financial statements contained within this document.

City Council is required to adopt a final budget for operating funds no later than thirty days before the close of the previous fiscal year. The budget is prepared by fund, function (e.g., public safety), and department (e.g., police). Department heads may transfer funds within a department. Transfers between departments require the approval of the City Manager.



*Transmittal Letter*

### ***Local Economy***

The City is the business, financial, medical, cultural and educational center of southeastern Virginia. In the beginning of 2005, investment in development projects was announced as "\$5 Billion in 5 Years" drawing attention to the rapid renaissance the City is currently experiencing.

Economic development initiatives are focused on the attraction, expansion and retention of businesses, neighborhood and community revitalization, and commercial corridor development. In 2005, *Forbes* magazine ranked Norfolk the 8<sup>th</sup> "Best Places to Do Business and Start Careers" and *Inc. Magazine* ranked our market 13<sup>th</sup> in the "Top 25 Places to do Business."

Resulting from the coordinated efforts of the City, downtown property assessed values increased 105 percent in the past eight years. City wide, property valuation increased 32 percent. Class A Office space is at a premium with vacancy rates below 10 percent.

Norfolk's standing as the region's financial center was strengthened as Main Street deposits reached almost \$1.6 billion last year, up from under \$600 million in 1994. Bank presence along Main Street include Bank of America, BB&T, Monarch, Old Point National, RBC Centura, SunTrust, TowneBank and Wachovia. Bank of Hampton Roads, Heritage, Bank of the Commonwealth and several credit unions are also downtown.

Norfolk offers a mix of cultural attractions and entertainment for its citizens and tourists. Investments in this segment, include restoring three live performance theaters, the construction of a cruise terminal building and upgrades to civic venues. Improvements





to the Virginia Zoological Park, Botanical Garden and the Norfolk International Airport have also greatly enhanced the tourist visitation experience.

Residential investment continues to grow throughout the City. Since 1998, approximately \$1.5 billion in multifamily residential projects have been completed or are underway. Downtown's offering includes several mixed-use properties and there is growing demand for rehabilitated properties converted into condominiums and rental lofts. In 2001, USA Today announced Norfolk's Downtown as a "Top 10 Booming Downtown" with a 20.5 percent increase in downtown population between 1990-2000. Currently, over 1,000 multifamily units are under construction in the downtown area and city-wide there are well over 3,500 single-family and multifamily units under development.

The City continues to be a national leader in hotel performance with growth in hotel occupancy rates. In 2002, the Norfolk metropolitan statistical area ranked first in the nation, experiencing the highest gains in both hotel occupancy and growth in the average daily rate for any major market. Several extended stay hotels have been built throughout the city and we have recently announced the construction of a new downtown hotel, conference center and public parking garage.

The presence and role of the military in Norfolk remains a positive force and continues to have a significant impact on the local economy. The City is home of the world's largest naval complex, with headquarters for Commander in Chief of U.S. Atlantic Command, NATO Supreme Allied Command Atlantic, Commander in Chief U.S. Atlantic Fleet and other major naval commands. The Navy's direct economic impact on the region was \$9.97 billion in 2003. Approximately 85,000 active-duty Navy military



personnel were in Hampton Roads in 2003, of which 71 percent were assigned to Norfolk.

Situated in the middle of the U.S. Atlantic coast, the City serves as a gateway between world commerce centers and the industrial heartland of the United States. Therefore, as part of one the world's largest natural deep-water harbors, the City hosts the Norfolk International Terminals, one of the largest general cargo ports on the east coast. By 2010, a 300-acre expansion of the Norfolk International Terminals will be complete, making it one of the largest inter-modal centers in the United States. Recently, two of the top five shipping lines have consolidated offices and opened their North American headquarters in Norfolk.

Major industries outside the naval and other governmental operations include automobile manufacturing, financial intuitions, ship builders and repairers, railroad operations and retail operations. In 2004, U.S. Gypsum announced a \$132 million expansion of its Norfolk plant. Ford Motor Company's Norfolk's Assembly Plant is currently constructing a state-of-the-art ARS building, allowing an Automatic Retrieval System warehouse for auto parts.

The City's major healthcare complexes provide premier services to all of southeastern Virginia and northeastern North Carolina. A new Heart Hospital under construction at the Sentara Norfolk General Hospital represents a \$100 million investment with an expansion of 112 beds. Over \$1.5 billion in institutional investments made in the past six years is heavily concentrated in educational and medical facilities construction. Two university research parks are under development and both include applied research space for collaborative projects with the private sector. The City hosts several institutions of higher education including Old Dominion University, Norfolk State





Honorable City Council

University, Eastern Virginia Medical School, Virginia Wesleyan College and Tidewater Community College.

### Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA ) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Norfolk for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2004. This was the 19<sup>th</sup> consecutive year that the City received this prestigious award. In order to be awarded a Certificate of Achievement, the government published an easily readable and efficiently organized CAFR. This report satisfied both GAAP and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe this CAFR continues to meet the program's requirements and are submitting it to the GFOA to determine its eligibility for another certificate.

### Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Norfolk,  
Virginia

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2004

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



*Nancy L. Ziehl*

President

*Jeffrey R. Enos*  
Executive Director



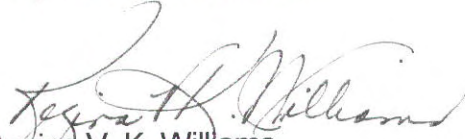
*Transmittal Letter*

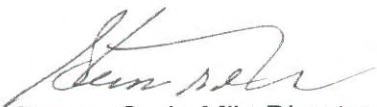
Honorable City Council

The preparation of this report would not have been possible without the efficient and dedicated services of the Department of Finance and Business Services, especially the City Controller Bureau staff, and the enterprise controllers and fund accountants of various City activities. We express our appreciation to all members who assisted in and contributed to its preparation.

Credit also must be given to the City Council for their unfailing support for maintaining the highest standards of professionalism in the management of the City's finances.

Respectfully Submitted,

  
Regina V. K. Williams  
City Manager

  
Steven G. de Mik, Director  
Finance and Business Services



*Transmittal Letter*





**CITY OF NORFOLK, VIRGINIA**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**June 30, 2005**

# **FINANCIAL SECTION**

**~ Independent Auditor's Report ~**

**~ Management's Discussion and Analysis ~**

**~ Basic Financial Statements ~**

**Government-wide Financial Statements**

**Fund Financial Statements**

**Notes to the Financial Statements**

**Required Supplementary Information**

**Schedules of Revenues and Expenditures – Budget and Actual**



*Financial Section*

# **INDEPENDENT AUDITORS' REPORT**



# McGladrey & Pullen

Certified Public Accountants

## Independent Auditor's Report

To the Honorable Members of the City Council  
Norfolk, Virginia

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Norfolk, Virginia (the "City"), as of and for the fiscal year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Norfolk Redevelopment and Housing Authority ("NRHA"), which represents approximately 71% and 23%, respectively, of the assets and revenues of the aggregate discretely presented component units of the City of Norfolk, Virginia. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for NRHA, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the *Specifications for Audits of Counties, Cities and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Norfolk, Virginia, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note XXV to the financial statements, the City restated beginning Net Assets to correct previous clerical errors.



In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2005 on our consideration of the City of Norfolk, Virginia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis information on pages 3 through 16, the schedule of funding progress on page 83, and the general fund budgetary comparisons on pages 84 through 86 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standard Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Norfolk, Virginia's basic financial statements. The combining and individual fund financial statements and other schedules listed in the table of contents as supplementary information and the introductory section and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. Additionally, the accompanying Schedule of Expenditures of Federal Awards as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* is presented for purposes of additional analysis and is not a required part of the basic financial statements. The combining and individual fund financial statements and other schedules and the Schedule of Expenditures of Federal Awards have been subjected to the auditing procedures applied in the audit of basic financial statements and, in our opinion are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The accompanying introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

*McGladrey & Pullen, LLP*

Greensboro, North Carolina  
October 21, 2005



# **MANAGEMENT'S DISCUSSION AND ANALYSIS**



**CITY OF NORFOLK, VIRGINIA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2005**

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The management of the City of Norfolk (the City) provides this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2005. As readers, you are encouraged to read this discussion and analysis in conjunction with the transmittal letter and City's financial statement information included in this report.

**Financial Highlights**

- The assets of the City exceeded its liabilities at the close of fiscal year 2005 by \$787,841,392 (net assets). Of this amount, \$140,431,922 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets decreased by \$37,380,054, mostly attributed to the increase in expenditures associated with public works and public safety services.
- As of the close of the current fiscal year, the City's governmental funds reported a combined ending fund balance of \$185,098,438, an increase of \$7,444,438 in comparison with the prior year. Approximately \$61,392,991 is available for spending at the government's discretion (unreserved fund balance).
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$54,007,242 or 12 percent of total general fund expenditures.
- The City's total outstanding bonded indebtedness increased by \$55,403,229 during the current fiscal year.

***Overview of the Financial Statements***

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. The financial section of this report includes management's discussion and analysis, the basic financial statements, and required supplementary information. The basic financial statements are comprised of three components: 1) government-wide financials statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements** – The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The Statement of Net Assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

**CITY OF NORFOLK, VIRGINIA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2005**

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The Statement of Activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are mainly supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their cost through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, highways and streets, sanitation, economic development, public health, and culture and recreation. The business-type activities of the City include Water Utility, Wastewater Utility and Parking System enterprise activities.

The government-wide financial statements include not only the City itself (known as the primary government), but also the following legally separate component units for which the City is financially accountable: Norfolk Public Schools (School Board), Norfolk Redevelopment and Housing Authority (NRHA), and the Norfolk Community Services Board (CSB). Financial information for these component units is reported separately from the financial information presented for the primary government and can be found on pages 28-29 of this report.

**Fund financial statements** - A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. In the Basic Financial Statements, the emphasis is on major funds. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental funds** are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of a fiscal year. Such information may be useful in evaluating the City's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers can better understand the long-term impact of the government's near-term financing decisions. A reconciliation between the

**CITY OF NORFOLK, VIRGINIA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2005**

---

government-wide financial statements and the fund financial statements is included as part of the basic financial statements.

The City maintains 15 individual governmental funds. Information is presented separately in the governmental fund balance sheet and governmental fund statement of revenues, expenditures, and changes in fund balance for the general, capital projects and debt service funds, all of which are considered major funds. All other governmental funds are combined in a single, aggregated presentation. Individual fund data for each of the non-major funds are presented separately in the form of combining statements elsewhere in this report.

The City adopts an annual budget for its various funds. To demonstrate compliance with this budget, budgetary comparison statements have been provided in this report.

The basic governmental fund financial statements can be found in pages 19-22 of this report.

***Proprietary funds.*** The City maintains two types of proprietary funds: enterprise and internal service.

The enterprise funds are used to account for its Water Utility, Wastewater Utility, and Parking operations. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements.

Internal service funds are an accounting mechanism to accumulate and allocate costs internally among the City's functions. The City has two internal service funds, Fleet Maintenance and Storehouse operations. Because, both of these services predominantly benefit governmental functions, they are included within the governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water, Wastewater Utilities and Parking operations, all of which are considered major funds. Conversely, the internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements in this report.

The basic proprietary fund financial statements can be found on pages 23-25 of this report.

***Fiduciary funds*** are used to account for resources held for the benefit of parties outside the City. The fiduciary funds for City include the City's pension trust fund, the Commonwealth of Virginia agency fund and another miscellaneous agency fund. Fiduciary funds are not included in the government-wide financial statements because

**CITY OF NORFOLK, VIRGINIA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2005**

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the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used in proprietary funds.

The fiduciary fund financial statements can be found in pages 26-27 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found on pages 30-82 of this report.

**Other Information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found in on pages 83 – 85 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds and internal service funds are presented on pages 87 – 88 of this report.

***Government-wide Financial Analysis***

Over time, net assets may serve as a useful indicator of the City's financial position. In the case of the City, assets exceeded liabilities by \$787,841,392.

By far, the largest portion of the City's net assets, \$640,621,328 is its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any debt related to acquiring the asset in the most recent fiscal year that is still outstanding. These capital assets are used to provide services to citizens and are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other resources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets (16 percent) represent resources that are subject to external restrictions on how they may be used. The remaining balance of \$140,431,922 of unrestricted net assets may be used to meet the City's ongoing obligations to citizens and creditors.



**CITY OF NORFOLK, VIRGINIA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2005**

**City of Norfolk's Net Assets**

	Governmental Activities		Business-Type Activities		Totals	
	2004				2004	
	2005	(As Restated)	2005	2004	2005	(As Restated)
Current and Other Assets	\$ 240,697,502	\$ 223,964,209	\$ 89,188,953	\$ 82,660,404	\$ 329,886,455	\$ 306,624,613
Capital Assets	806,380,231	832,427,794	678,564,827	668,878,935	1,484,945,058	1,501,306,729
Total Assets	1,047,077,733	1,056,392,003	767,753,780	751,539,339	1,814,831,513	1,807,931,342
Long-Term Liabilities	506,304,607	481,397,730	471,110,628	411,269,826	977,415,235	892,667,556
Other Liabilities	38,538,767	29,124,768	11,036,119	60,917,572	49,574,886	90,042,340
Total Liabilities	544,843,374	510,522,498	482,146,747	472,187,398	1,026,990,121	982,709,896
Net Assets:						
Invested in Capital Assets						
Net of Related Debt	403,577,259	406,303,814	237,044,069	223,017,874	640,621,328	629,321,688
Restricted	6,788,142	55,785,567	-	36,041,152	6,788,142	91,826,719
Unrestricted	91,868,958	83,780,124	48,562,964	20,292,915	140,431,922	104,073,039
Total Net Assets	\$ 502,234,359	\$ 545,869,505	\$ 285,607,033	\$ 279,351,941	\$ 787,841,392	\$ 825,221,446

For governmental activities, net assets decreased by \$43,635,146, during the current fiscal year.

For business-type activities, net assets increased by \$6,255,092 during the fiscal year. Of this amount, (\$3,793,880), \$8,067,476 and \$1,981,496 are attributed to Water Utility, Wastewater Utility and Parking Operations, respectively.

Key elements of these changes are demonstrated on the following page:

**CITY OF NORFOLK, VIRGINIA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2005**

	City of Norfolk's Net Assets					
	Governmental Activities		Business-Type Activities		Totals	
	2004				2004	
	2005	(As Restated)	2005	2004	2005	(As Restated)
<b>Revenues:</b>						
Program Revenues						
Charges for Services	\$ 29,129,154	\$ 31,341,945	\$ 103,390,264	\$ 100,951,443	\$ 132,519,418	\$ 132,293,388
Operating Grants & Contributions	116,399,391	105,466,037	-	-	116,399,391	105,466,037
Capital Grants & Contributions	-	-	-	204,673	-	204,673
General Revenues:						
Property Taxes	193,156,109	181,445,717	-	-	193,156,109	181,445,717
Other Taxes	150,477,469	140,674,823	-	-	150,477,469	140,674,823
Grants and Contributions not restricted for specific purposes	68,219,143	77,600,631	-	-	68,219,143	77,600,631
Other	11,133,781	17,702,325	4,494,243	4,594,357	15,628,024	22,296,682
Special Items	2,277,190	-	-	-	2,277,190	-
Total Revenues	570,792,237	554,231,478	107,884,507	105,750,473	678,676,744	659,981,951
<b>Expenses:</b>						
General Government	74,344,364	86,081,115	-	-	74,344,364	86,081,115
Judicial Administration	40,319,294	36,635,368	-	-	40,319,294	36,635,368
Public Safety	107,530,829	99,975,187	-	-	107,530,829	99,975,187
Public Works	144,437,907	124,833,215	-	-	144,437,907	124,833,215
Health and Public Assistance	84,172,798	77,668,062	-	-	84,172,798	77,668,062
Culture and Recreation	46,267,573	42,495,095	-	-	46,267,573	42,495,095
Community Development	16,973,721	10,471,367	-	-	16,973,721	10,471,367
Education	91,864,910	90,020,000	-	-	91,864,910	90,020,000
Interest on Long-Term Debt	18,515,987	17,460,908	-	-	18,515,987	17,460,908
Intergovernmental	-	6,140,043	-	-	-	6,140,043
Water Utility	-	-	60,207,309	60,069,129	60,207,309	60,069,129
Wastewater Utility	-	-	12,026,226	11,753,512	12,026,226	11,753,512
Parking	-	-	19,395,880	16,868,886	19,395,880	16,868,886
Total Expenses	624,427,383	591,780,360	91,629,415	88,691,527	716,056,798	680,471,887
Increase (decrease) in Net Assets before Transfers	(53,635,146)	(37,548,882)	16,255,092	17,058,946	(37,380,054)	(20,489,936)
Transfers	10,000,000	10,000,000	(10,000,000)	(10,000,000)	-	-
Increase (decrease) in Net Assets	(43,635,146)	(27,548,882)	6,255,092	7,058,946	(37,380,054)	(20,489,936)
Net Assets Beginning of Year	545,869,505	573,418,387	279,351,941	272,292,995	825,221,446	845,711,382
Net Assets End of Year	\$ 502,234,359	\$ 545,869,505	\$ 285,607,033	\$ 279,351,941	\$ 787,841,392	\$ 825,221,446

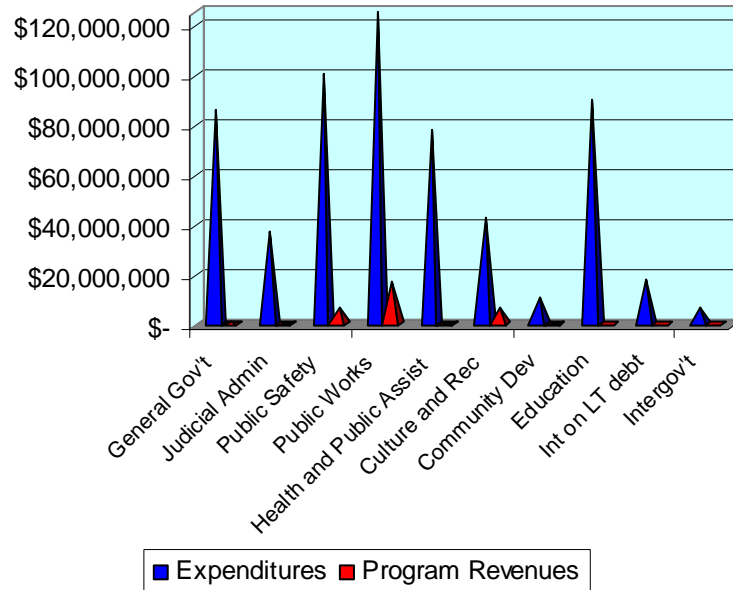
**Governmental Activities.** Property taxes and other tax revenues increased 6.68 percent to \$343,633,578 and comprise 60 percent of total governmental revenues.

Operating grants and contributions for governmental activities ended the fiscal year at \$116,399,391 an increase of \$10,933,354 over the prior year. Grants and contributions not restricted for specific programs represent intergovernmental grants and contributions from State and federal agencies. At fiscal year end, the City reported \$68,219,143 in grants and contributions not restricted for specific programs.

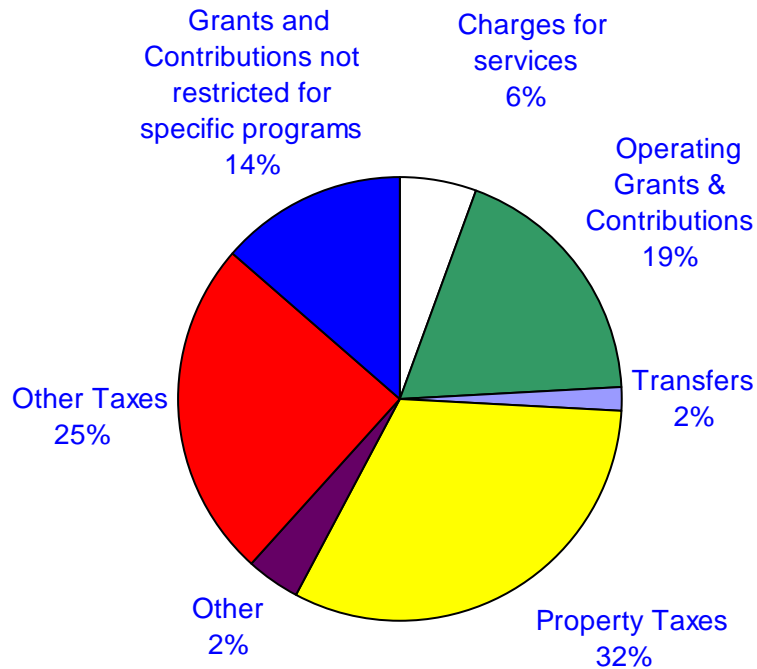
Depreciation expense for governmental activities of \$65,214,991 contributed to the overall reduction in net assets.

**CITY OF NORFOLK, VIRGINIA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2005**

**Expenditures and Program Revenues - Governmental Activities**



**Revenues by Source - Governmental Activities**



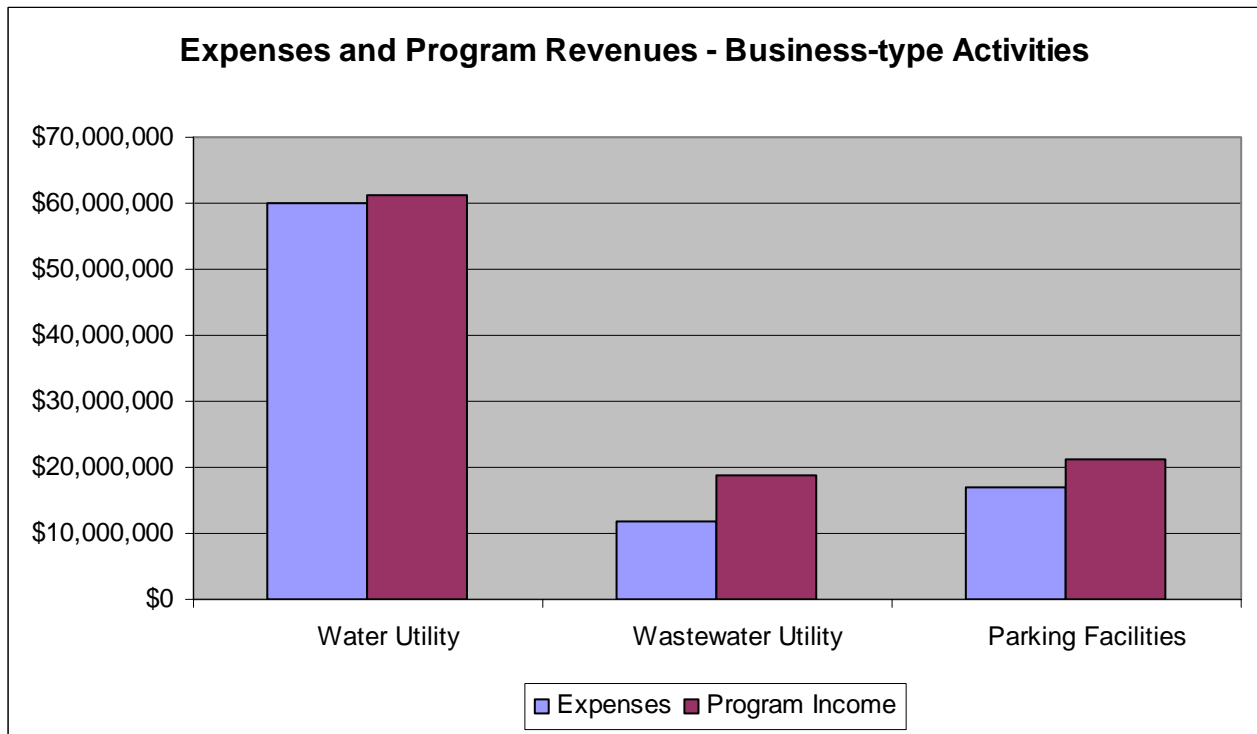


**CITY OF NORFOLK, VIRGINIA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2005**

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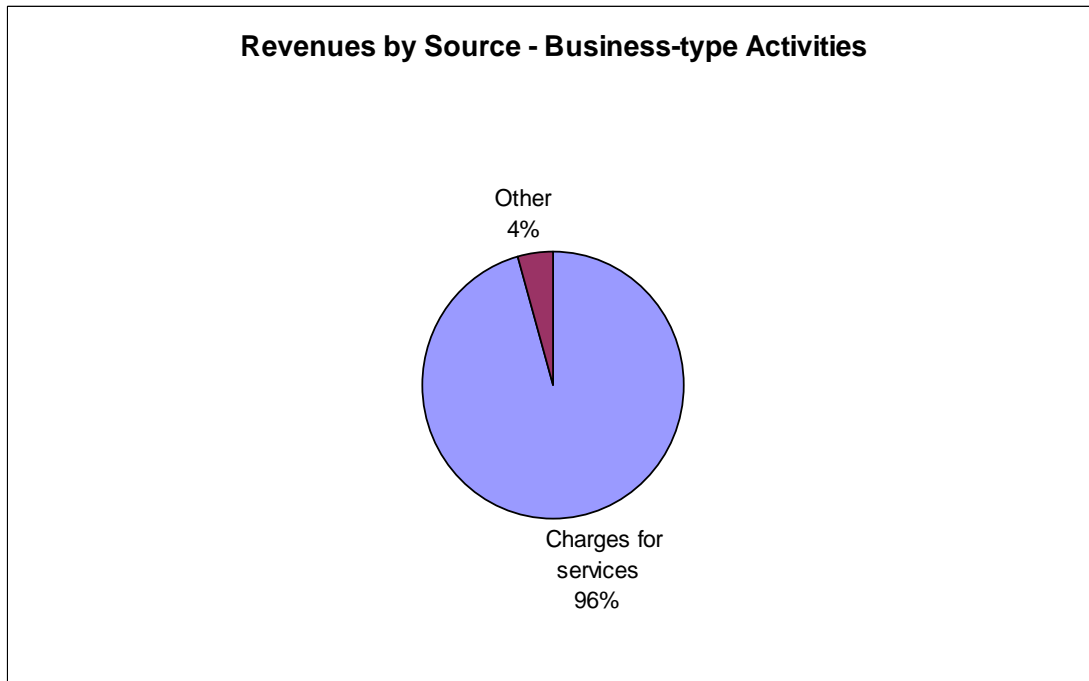
**Business-type Activities.** Business-type activities increased the City's net assets by \$6,255,092. Key elements of this increase are as follows:

- Charges for services for business-type activities increased by 2.42 percent. The Water and Wastewater Utility funds account for a significant portion of this increase. As part of the City's utility rate plan to improve utility infrastructure throughout the City, the Water and Wastewater Utility rates were increased by \$0.25/100 cubic feet and \$0.30/100 cubic feet, respectively. Water consumption did not increase appreciably during the fiscal year.
- Miscellaneous revenues declined by 20.91 percent primarily attributable to a decline in federal reimbursements associated with expenses incurred in 2003 as a result of Hurricane Isabel.
- Expenses increased by 3.3%. Personal services increased as a result of general wage increases and retirement and other benefit cost increases. The Parking operations also experienced personnel cost increases associated with expansion of the City's Cruise Terminal operations and the provision of parking services for passengers.
- Losses on the disposal of assets increased by approximately \$891,000. The loss was primarily the result of the disposal and replacement of the City's Freemason Street Garage.



**CITY OF NORFOLK, VIRGINIA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2005**

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***Financial Analysis of the Government's Funds***

As previously noted, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental Funds** – the focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. This information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$185,098,438, of which \$123,705,447 is reserved. That portion of fund balances that is not available for new spending because it has already been committed to 1) liquidate contracts and purchase orders of the prior period (\$68,683,389), 2) to generate income to pay for the perpetual care of the municipal cemetery (\$5,979,580), and 3) for a variety of other restricted purposes (\$49,024,478). The remaining \$61,392,991 is available for spending at the government's discretion.

The City's primary governmental fund is its general fund. As a matter of fiscal policy, the City targets an unreserved fund balance of five percent of the general government's and School Board's annual operating budgets, or \$35,052,179 at June 30, as a minimum amount each year that will remain in fund balance. In addition, the City designated \$8,728,960 million of its fund balance for future expenditures related to a

**CITY OF NORFOLK, VIRGINIA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2005**

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potential general economic downturn and for its self-insured worker's compensation and general liability programs.

For the general fund, on the budgetary basis of accounting, the City ended the fiscal year with revenues slightly above projections by \$2,439,852. Total expenditures were less than appropriations by \$18,017,021 mostly attributed unspent additional appropriations provided to the School Board from the Commonwealth of Virginia. These unspent appropriations were appropriated as a cash contribution to the City's Capital Improvement Program in fiscal year 2006 to assist in the construction of two new elementary schools.

General fund financial and budgetary highlights of the 2005 fiscal year include:

- As a result of a strong housing and commercial property markets, general property tax revenues and state reimbursements of personal property taxes exceeded budgetary projections by \$3,134,504;
- Other Local tax collections exceeded budgetary projections by \$4,903,974;
- As a result of rising interest rates revenues from interest earnings exceeded budgetary expectations by \$1,903,368;
- Reduced revenues from the State for public assistance grants were offset by local spending reductions;
- Interfund transfers were less than anticipated primarily as the result of a planned sale of a City lake not occurring by the end of the fiscal year; and
- On September 18, 2003, the City experienced the most powerful storm to hit the City since 1933, Hurricane Isabel. Although the City is currently appealing a number of federal claims determinations by the Federal Emergency Management Agency (FEMA), the City in its General Fund wrote off \$3.1 million of federal disaster reimbursement claims since the anticipated collection did not meet the availability accrual requirement.

Supplemental appropriations or amendments of the total 2005 general fund budget were:

Approved FY 2004-2005 budget	\$ 700,617,600
<b>Supplemental appropriations from general fund fund balance:</b>	
Additional funds allocated to Attucks Theatre reconstruction	202,000
Additional funds from the Commonwealth of Virginia for Road Maintenance	<u>223,981</u>
Final budget	<u><u>\$ 701,043,581</u></u>

**Proprietary Funds** - the City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

**CITY OF NORFOLK, VIRGINIA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2005**

Factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

***Capital Asset and Debt Administration***

**Capital Assets** - the City's investment in capital assets, net of related debts, for its governmental and business-type activities as of June 30, amounts to \$640,621,328. The investment in capital assets includes land, buildings, improvements, infrastructure (streets, roads, bridges, highways, etc) machinery, and equipment. Infrastructure assets represent approximately 43 percent of total general governmental assets.

Major capital asset events during the current fiscal year include the following:

- Construction related to infrastructure for the Broad Creek Renaissance Hope VI project progressed. As of June 30, the City has invested \$5.7 million in infrastructure improvements; Replenishment of the City's beaches from beach erosion progressed. During the year, the City spent \$4.5 million on such improvements;
- Construction of the Lambert's Point Golf Course neared completion. Current year expenditures were \$2.1 million;
- Construction of Norview High School neared completion. Current year expenditures were \$5.6 million;
- Water and Wastewater Utility construction progressed in accordance with the City's consent orders with the Federal Department of Environmental Quality; and
- The Freemason Street Garage along Boush Street was completed.

City of Norfolk's Capital Assets (net of accumulated depreciation)						
	Governmental Activities		Business-Type Activities		Totals	
	2004 (As Restated)		2004 (As Restated)		2004 (As Restated)	
	2005	2004 (As Restated)	2005	2004 (As Restated)	2005	2004 (As Restated)
Land	\$ 33,451,056	\$ 27,337,486	\$ 49,636,308	\$ 42,290,858	\$ 83,087,364	\$ 69,628,344
Buildings & Equipment	345,498,753	350,037,812	628,928,519	626,588,077	974,427,272	976,625,889
Improvements other than Buildings	9,999,523	10,512,188	-	-	9,999,523	10,512,188
Construction in Progress	71,690,426	60,727,669	-	-	71,690,426	60,727,669
Infrastructure	345,740,473	383,812,639	-	-	345,740,473	383,812,639
Total	<u>\$ 806,380,231</u>	<u>\$ 832,427,794</u>	<u>\$ 678,564,827</u>	<u>\$ 668,878,935</u>	<u>\$ 1,484,945,058</u>	<u>\$ 1,501,306,729</u>

Additional information on the City's capital assets can be found in Note VII on pages 49-51 of this report.

**Long-term Debt** – At June 30, 2005 the City (including the enterprise funds) had total bonded debt outstanding of \$894,113,128. Of this amount, \$421,008,476 comprises debt backed by the full faith and credit of the City. The remainder of the City's debt represents bonds secured solely by specified revenue sources (i.e., revenue bonds).

A summary of the City's outstanding bonded debt is as follows:



**CITY OF NORFOLK, VIRGINIA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2005**

**City of Norfolk's Long-Term Debt**

	Governmental Activities		Business-Type Activities		Totals	
	2005	2004	2005	2004	2005	2004
General Obligation Bonds	\$ 421,008,476	\$ 385,609,976	\$ 90,415,652	\$ 87,635,923	\$511,424,128	\$ 473,245,899
Revenue Bonds	-	-	382,689,000	365,464,000	382,689,000	365,464,000
Total	\$ 421,008,476	\$ 385,609,976	\$473,104,652	\$ 453,099,923	\$894,113,128	\$ 838,709,899

The City's total debt increased by \$ 55,403,229 (6.61 percent) during the current fiscal year. The primary factors for this increase were from the following bond issues:

- \$59,320,000 in general obligation bonds to fund various capital improvements;
- \$17,855,000 in parking revenue bonds to fund the construction and acquisition of new parking facilities;
- \$22,810,000 in water revenue bonds to fund various water related capital improvements;
- \$13,015,000 in wastewater general obligation bonds to fund various wastewater related capital improvements; and
- \$1,775,000 in general obligation property acquisition bonds.

During the current fiscal year, the City refinanced some of its existing obligations to take advantage of favorable interest rates:

- \$35,035,000 in general obligation bonds to refinance previously outstanding general obligations bonds. The result is expected to be a decrease in debt service payments over the life of the bonds by \$620,131;
- \$19,745,000 in parking revenue bonds which is expected to decrease debt service payments over the life of the bonds by \$1,002,844; and another
- \$26,045,000 in parking revenue bonds which is expected to decrease debt service payments over the life of the bonds by \$2,034,844.

The City also took advantage of the opportunity to purchase a surety and release a water revenue bond debt service reserve fund previously funded with bond proceeds. The use of these previously issued bond proceeds to pay for future construction requirements enabled the City to reduce its water revenue bond issue by \$12,943,829 and resulted in a reduction of planned future debt service requirements of \$11.9 million over the life of the bonds (assuming interest rates in effect on the date of the bond sale).

Ratings for the City's general obligation and water revenue bond programs are as follows:

Bonding Program	Fitch Ratings		Moody's Investors Service
	Standard and Poor's		
General Obligation	AA	AA	A1

**CITY OF NORFOLK, VIRGINIA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2005**

Water Revenue	AA	AA	A1
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The rating for the water revenue bond program represents a ratings upgrade from Standard and Poor's from a AA- to AA. The parking revenue bonds do not maintain an underlying credit rating.

State statutes limit the amount of general obligation debt a city may issue without referendum to 10 percent of its total assessed valuation. The current debt limitation for the City is \$1,096,081,242 which is significantly in excess of the City's general obligation debt outstanding.

Additional information on the City's long-term debt can be found in Note VIII on pages 51 –63 of this report.

**Economic Factors and Next Year's Budgets and Rates**

- The commercial and housing property markets continue to expand at record levels. For the 2006 fiscal year it is anticipated that taxable assessments of real property will increase by 16.8 percent;
- Other local taxes continue to increase reflecting the renaissance in not only downtown Norfolk, but the community as a whole. The following reflects major other tax growth projections:
  - Sales Tax – 4.3% increase
  - Hotel and Motel Tax – 7.9% increase
  - Restaurant food taxes – 5.7% increase;
- Parking revenues continue to reflect positive growth from a growing downtown;
- Rate increases for both the Water and Wastewater utility funds provide necessary funding to finance capital improvements;

All of these factors were considered in preparing the City's budget for the 2006 fiscal year.

During the year the City's unreserved General Fund balance was \$ 54,007,242. The City has appropriated \$2,759,300 of this amount for use in the 2006 fiscal year budget.

The following represents changes in major tax rates and fees for the 2006 fiscal year:

Description	FY 2006 Approved	FY 2005 Approved
Real Estate Property Tax	\$1.35/\$100 Assessed Value	\$1.40/\$100 Assessed Value
Refuse Disposal - Business	\$23.26/unit/month	\$19.35/unit/month
Refuse Disposal – Residential/Single Unit	\$12.75/Unit/Month	\$10.45/Unit/Month
Wastewater Fees	\$2.57/100 Cubic Feet	\$2.47/100 Cubic Feet

**CITY OF NORFOLK, VIRGINIA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2005**

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Water Fees	\$3.26/100 Cubic Feet	\$3.01/100 Cubic Feet
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**Requests for Information**

This financial report is designed to provide a general overview of the City's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Director of Finance and Business Services, 810 Union Street, Suite 600, Norfolk, Virginia, 23510.

# **BASIC FINANCIAL STATEMENTS**





## CITY OF NORFOLK, VIRGINIA

Exhibit 1

## Statement of Net Assets

June 30, 2005

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
<b>ASSETS</b>				
Cash and cash equivalents	\$ 132,173,359	\$ 30,876,349	\$ 163,049,708	\$ 35,696,363
Cash held in escrow with fiscal agent	-	-	-	2,837
Restricted cash held with fiscal agent	-	8,964,481	8,964,481	3,644,480
Investments	48,055,139	12,174,642	60,229,781	13,492,798
Receivables, (net)				
Taxes	23,259,935	-	23,259,935	-
Accounts	8,396,735	11,342,904	19,739,639	2,226,377
Notes	111,982	-	111,982	53,851,919
Accrued investment income	519,128	34,843	553,971	1,216,916
Other	-	591,960	591,960	486,612
Tenants	-	-	-	140,057
Internal balances	(206,368)	206,368	-	-
Due from other governments	25,479,412	-	25,479,412	40,342,975
Due from other primary governments	-	-	-	8,602,693
Due from other agencies	-	-	-	6,985,094
Inventories	2,162,181	1,986,027	4,148,208	1,404,462
Restricted cash and investments	-	22,625,948	22,625,948	24,924,861
Other assets	745,999	385,431	1,131,430	24,178,626
Non-depreciable capital assets (See Note VI)	105,141,482	116,027,065	221,168,547	56,038,777
Depreciable capital assets, net (See Note VI)	701,238,749	562,537,762	1,263,776,511	138,027,048
Total assets	<u>1,047,077,733</u>	<u>767,753,780</u>	<u>1,814,831,513</u>	<u>411,262,895</u>
<b>LIABILITIES</b>				
Vouchers/Accounts payable	12,295,566	3,636,757	15,932,323	7,200,829
Employees withholdings	32,286	-	32,286	4,608,124
Contract retainage	1,113,468	635,015	1,748,483	1,725,721
Accrued interest	5,541,196	996,200	6,537,396	714,695
Accrued payroll	4,338,291	433,512	4,771,803	21,994,807
Due to other agencies	2,497,122	-	2,497,122	1,970,551
Due to other governments	-	-	-	530,807
Due to other primary gov/component units	8,602,693	-	8,602,693	-
Other liabilities	3,027,481	797,717	3,825,198	15,227,935
Deferred revenue	1,090,664	-	1,090,664	26,126,885
Liabilities payable from restricted assets	-	4,536,918	4,536,918	-
Long-term liabilities (See Note VIII) :				
Due within one year	80,046,205	25,106,355	105,152,560	18,898,776
Due in more than one year	426,258,402	446,004,273	872,262,675	80,862,706
Total liabilities	<u>544,843,374</u>	<u>482,146,747</u>	<u>1,026,990,121</u>	<u>179,861,836</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	403,577,259	237,044,069	640,621,328	166,311,988
Restricted for:				
Perpetual care:				
Nonexpendable	5,979,580	-	5,979,580	-
Capital projects	-	-	-	6,805,195
Grants fund	43,562	-	43,562	-
Retirees' life insurance	765,000	-	765,000	-
Debt service	-	-	-	5,599,074
Other programs	-	-	-	54,432,027
Unrestricted	91,868,958	48,562,964	140,431,922	(1,747,225)
Total net assets	<u>\$ 502,234,359</u>	<u>\$ 285,607,033</u>	<u>\$ 787,841,392</u>	<u>\$ 231,401,059</u>

## CITY OF NORFOLK, VIRGINIA

Exhibit 2

Statement of Activities  
For the Year Ended June 30, 2005

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Government		Component Units
				Governmental Activities	Business-Type Activities	
<b>Primary Government:</b>						
<b>Governmental activities:</b>						
General government	\$ 74,344,364	\$ 774,862	\$ 24,768,647	\$ (48,800,855)	\$ (48,800,855)	
Judicial administration	40,319,294	497,944	18,925,310	(20,896,040)	(20,896,040)	
Public safety	107,530,829	11,607,629	8,214,296	(87,708,904)	(87,708,904)	
Public works	144,437,907	9,080,575	19,358,996	(115,998,336)	(115,998,336)	
Health and public assistance	84,172,798	130,050	38,933,868	(45,108,880)	(45,108,880)	
Culture and recreation	46,267,573	7,033,553	2,922,659	(36,311,361)	(36,311,361)	
Community development	16,973,721	4,541	3,275,615	(13,693,565)	(13,693,565)	
Education	91,864,910	-	-	(91,864,910)	(91,864,910)	
Interest on long-term debt	18,515,987	-	-	(18,515,987)	(18,515,987)	
Total governmental activities	624,427,383	29,128,154	116,399,391	(478,898,838)	(478,898,838)	
<b>Business-type activities:</b>						
Water	60,207,309	61,002,286	-	-	794,977	
Wastewater	11,956,635	21,328,637	-	-	9,372,002	
Parking facilities	18,639,602	21,059,341	-	-	2,419,739	
Total business-type activities	90,803,546	103,390,264	-	-	12,586,718	
Total primary government	715,230,929	132,519,418	116,399,391	(478,898,838)	(466,312,120)	
<b>Component units:</b>						
Norfolk Public Schools	329,249,044	6,469,142	228,776,094	9,414,320	-	\$ (84,589,488)
NRHA	83,301,226	20,748,205	61,432,303	15,720,283	-	14,099,565
Community Services Board	18,165,134	4,509,423	-	-	-	(3,270,536)
Total component units	\$ 431,215,404	\$ 31,726,770	\$ 300,593,572	\$ 25,134,603	-	(73,760,459)
<b>General revenues:</b>						
<b>Taxes</b>						
Real estate				193,156,109	-	193,156,109
Sales and use taxes				29,497,479	-	29,497,479
Consumers' utility taxes				43,387,390	-	43,387,390
Business licenses taxes				22,014,613	-	22,014,613
Motor vehicle licenses				2,604,937	-	2,604,937
Cigarette taxes				6,947,795	-	6,947,795
Restaurant food taxes				26,669,046	-	26,669,046
Franchise, Admission, Recordation and other miscellaneous local taxes				19,356,209	-	19,356,209
Interest and investment earnings				4,915,709	863,528	5,779,237
Grants and contributions not restricted to specific programs				68,219,143	-	68,219,143
Miscellaneous				6,218,072	3,657,324	9,875,396
Loss from sale of assets				-	(852,478)	(852,478)
Local government				5,390,814	-	5,390,814
Special item - proceeds from sale of land				(3,113,624)	-	(3,113,624)
Special item - write off of uncollectible FEMA Grant				-	-	-
Transfers				435,263,692	(10,000,000)	428,932,066
Total general revenues, special items, and transfers				(43,635,146)	(6,331,626)	106,771,903
Change in net assets				554,737,675	6,255,092	33,011,444
Net assets - beginning				(5,689,302)	279,351,941	191,366,616
Adjustment to beginning net assets (Note XXV)				(3,178,868)	-	7,022,999
Adjustment to beginning net assets (Note XXV)				\$ 502,234,359	\$ 285,607,033	\$ 231,401,059
Net assets - ending						

The accompanying notes are an integral part of the financial statements.

**CITY OF NORFOLK, VIRGINIA**  
**Balance Sheet - Governmental Funds**  
**June 30, 2005**

**Exhibit A-1**

	Major Funds			Non major	Total
	General	Capital	Debt	Governmental	Governmental
	Fund	Projects	Service	Funds	Funds
<b>ASSETS</b>					
Cash and cash equivalents	\$ 50,309,685	\$ 45,860,258	\$ -	\$ 33,761,716	\$ 129,931,659
Investments	-	46,732,139	-	1,323,000	48,055,139
Receivables, net					
Taxes	23,259,935	-	-	-	23,259,935
Accounts	1,354,561	2,161,130	-	4,675,534	8,191,225
Notes	111,982	-	-	-	111,982
Accrued investment income	336,565	22,222	-	160,341	519,128
Due from other funds	2,127,316	3,947,742	-	1,201,405	7,276,463
Receivable from other governments	25,479,412	-	-	-	25,479,412
Deposit contractors	742,915	-	-	3,084	745,999
Inventories	399,733	-	-	-	399,733
Total assets	<u>\$ 104,122,104</u>	<u>\$ 98,723,491</u>	<u>\$ -</u>	<u>\$ 41,125,080</u>	<u>\$ 243,970,675</u>
<b>LIABILITIES</b>					
Vouchers/Accounts payable	\$ 6,861,728	\$ 3,548,750	\$ -	\$ 1,496,924	\$ 11,907,402
Employee withholdings	32,286	-	-	-	32,286
Contract retainage	-	804,217	-	309,251	1,113,468
Accrued payroll	4,020,910	-	-	255,029	4,275,939
Due to other funds	3,264,076	1,197	-	4,224,925	7,490,198
Due to other governments	-	-	-	2,497,122	2,497,122
Due to component units	-	8,602,693	-	-	8,602,693
Deferred revenue	18,834,984	-	-	1,090,664	19,925,648
Other liabilities	2,929,511	-	-	97,970	3,027,481
Total liabilities	<u>35,943,495</u>	<u>12,956,857</u>	<u>-</u>	<u>9,971,885</u>	<u>58,872,237</u>
<b>FUND BALANCES</b>					
Reserved for:					
Encumbrances	13,006,634	34,594,859	-	21,081,896	68,683,389
Inventories	399,733	-	-	-	399,733
Perpetual care	-	-	-	5,979,580	5,979,580
Capital projects	-	47,777,680	-	100,065	47,877,745
Retirees reserve	765,000	-	-	-	765,000
Unreserved:					
Designated for:					
Future expenditures	15,987,197	-	-	-	15,987,197
Grants fund	-	-	-	43,562	43,562
Undesignated	38,020,045	3,394,095	-	3,948,092	45,362,232
Total fund balances	<u>68,178,609</u>	<u>85,766,634</u>	<u>-</u>	<u>31,153,195</u>	<u>185,098,438</u>
Total liabilities and fund balances	<u>\$ 104,122,104</u>	<u>\$ 98,723,491</u>	<u>\$ -</u>	<u>\$ 41,125,080</u>	<u>\$ 243,970,675</u>



**CITY OF NORFOLK, VIRGINIA**  
**Reconciliation of the Balance Sheet of Governmental Funds**  
**to the Statement of Net Assets**  
**June 30, 2005**

Exhibit A-2

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Fund balances--total governmental funds	\$	185,098,438
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Amounts reported for governmental activities in the Statement of  
Net Assets are different because:

Capital assets used in governmental activities are not  
financial resources and therefore are not reported  
in the funds :

	Cost of capital assets	1,768,537,212
	Depreciation expense to date	<u>(968,554,959)</u>
		799,982,253

Other long-term assets are not available to pay for  
current-period expenditures and therefore are  
deferred in the funds :

	Adjustment for deferred revenue	18,834,984
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Long-term liabilities, including bonds payable, are not  
due and payable in the current period and therefore  
are not reported in the funds :

	Bonds and notes payable	(421,454,792)
	Unamortized Bond premium	(15,851,815)
	Capital leases	(13,261,785)
	Retirement contribution	(21,142,954)
	Compensated absences	(14,711,598)
	Workers' compensation and claims liability	(16,941,135)
	Other	(2,271,472)
	Accrued interest payable	<u>(5,541,196)</u>
		(511,176,747)

Internal service funds		9,495,431
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Net Assets of Governmental Activities	\$	<u><u>502,234,359</u></u>
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**CITY OF NORFOLK, VIRGINIA**

Exhibit A-3

**Statement of Revenues, Expenditures, and Changes in Fund Balances  
Governmental Funds  
For Fiscal Year Ended June 30, 2005**

	<b>Major Funds</b>			<b>Non-major Governmental</b>	<b>Total Governmental</b>
	<b>General Fund</b>	<b>Capital Projects</b>	<b>Debt Service</b>	<b>Funds</b>	<b>Funds</b>
<b>REVENUES</b>					
General property taxes	\$ 192,894,904	\$ -	\$ -	\$ 397,624	\$ 193,292,528
Other local taxes	141,510,674	-	-	8,966,795	150,477,469
Permits and licenses	3,541,516	-	-	-	3,541,516
Fines and forfeitures	1,763,078	-	-	-	1,763,078
Use of money and property	7,154,235	1,513,248	-	1,564,287	10,231,770
Charges for services	14,829,244	-	-	14,299,910	29,129,154
Miscellaneous	5,196,567	1,022,060	-	12,732,292	18,950,919
Recovered costs	14,187,852	-	-	-	14,187,852
Intergovernmental	113,534,988	6,043,869	-	27,466,459	147,045,316
Total revenues	<u>494,613,058</u>	<u>8,579,177</u>	<u>-</u>	<u>65,427,367</u>	<u>568,619,602</u>
<b>EXPENDITURES</b>					
Current operating:					
General government	65,578,006	-	-	1,856,027	67,434,033
Judicial administration	37,456,654	-	-	652,915	38,109,569
Public safety	91,464,166	-	-	10,814,281	102,278,447
Public works	50,256,206	-	-	14,241,040	64,497,246
Health and public assistance	61,696,267	-	-	21,755,088	83,451,355
Culture and recreation	32,108,630	-	-	8,181,076	40,289,706
Education	91,864,910	-	-	-	91,864,910
Community development	7,125,756	-	-	5,590,152	12,715,908
Debt service:					
Principal	-	-	35,746,299	11,660,250	47,406,549
Interest and other charges	-	-	17,626,940	434,401	18,061,341
Capital outlay	-	85,144,416	-	-	85,144,416
Total expenditures	<u>437,550,595</u>	<u>85,144,416</u>	<u>53,373,239</u>	<u>75,185,230</u>	<u>651,253,480</u>
Excess (deficiency) of revenues over expenditures	<u>57,062,463</u>	<u>(76,565,239)</u>	<u>(53,373,239)</u>	<u>(9,757,863)</u>	<u>(82,633,878)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Proceeds of refunding bonds	-	-	30,389,362	-	30,389,362
Proceeds of capital leases	4,701,516	-	-	-	4,701,516
Issuance of debt	-	59,180,000	-	11,660,250	70,840,250
Payment to bond refunding escrow agent	-	-	(30,389,362)	-	(30,389,362)
Premium on bonds	-	2,259,360	-	-	2,259,360
Transfers in	11,103,036	7,406,967	53,373,239	10,471,017	82,354,259
Transfers out	(63,365,438)	(680,355)	-	(8,308,466)	(72,354,259)
Total other financing sources and uses	<u>(47,560,886)</u>	<u>68,165,972</u>	<u>53,373,239</u>	<u>13,822,801</u>	<u>87,801,126</u>
<b>SPECIAL ITEMS</b>					
Proceeds from sale of land	-	-	-	5,390,814	5,390,814
Write off of uncollectible FEMA Grant	(3,113,624)	-	-	-	(3,113,624)
Total other financing sources (uses) and special items	<u>(50,674,510)</u>	<u>68,165,972</u>	<u>53,373,239</u>	<u>19,213,615</u>	<u>90,078,316</u>
Net change in fund balance	6,387,953	(8,399,267)	-	9,455,752	7,444,438
Fund balances--beginning	61,790,656	94,165,901	-	24,876,311	180,832,868
Adjustment to beginning balance	-	-	-	(3,178,868)	(3,178,868)
Fund balances--ending	<u>\$ 68,178,609</u>	<u>\$ 85,766,634</u>	<u>\$ -</u>	<u>\$ 31,153,195</u>	<u>\$ 185,098,438</u>

# CITY OF NORFOLK, VIRGINIA

Exhibit A-4

## Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities For the Year Ended June 30, 2005

Net change in fund balances--total governmental funds		\$ 7,444,438
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets.		
	Add Capital acquisitions	85,144,416
	Subtract Depreciation	<u>(110,870,105)</u> (25,725,689)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		(136,419)
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		
	Add Debt repayment	47,406,549
	Premium on bond sale	(2,259,360)
	GO Bond proceeds	(70,840,250)
	Subtract debt proceeds	<u>(4,701,516)</u> (30,394,577)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds		
	Change in long-term liabilities (Note VIII)	(3,689,318)
	Principal paydown on capital leases	5,157,895
	Principal paydown on note payables	670,573
	Bond premium	3,283,880
	Accrued interest payable	<u>223,708</u> 5,646,738
Internal service funds are used by management to charge the costs of certain services to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities.		(469,637)
Change in Net Assets of Governmental Activities		<u>\$ (43,635,146)</u>

**CITY OF NORFOLK, VIRGINIA**  
**Statement of Fund Net Assets - Proprietary Funds**  
**June 30, 2005**

Exhibit B-1

	Business-Type Activities				Governmental Activities- Internal Service Funds
	Water	Waste- Water	Parking Facilities	Totals	
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents	\$ 21,216,514	\$ 1,216,816	\$ 8,443,019	\$ 30,876,349	\$ 2,241,700
Investments	10,278,642	-	1,896,000	12,174,642	-
Receivables:					
Accounts (net)	6,345,751	1,677,849	1,238,994	9,262,594	205,510
Unbilled accounts	1,150,375	929,935	-	2,080,310	-
Accrued investment income	27,170	-	7,673	34,843	-
Other receivables	584,583	7,377	-	591,960	-
Internal balances	2,088,536	-	-	2,088,536	-
Inventories	1,647,626	26,915	311,486	1,986,027	1,762,448
Other assets	99,346	-	286,085	385,431	-
Restricted cash held with fiscal agent	6,942,002	23,280	1,999,199	8,964,481	-
Total current assets	50,380,545	3,882,172	14,182,456	68,445,173	4,209,658
Restricted investments	7,900,000	7,292,061	7,433,887	22,625,948	-
Capital assets:					
Land and improvements	11,790,455	85,262	30,651,806	42,527,523	415,000
Buildings and equipment	518,694,204	151,723,172	134,584,060	805,001,436	10,618,617
Accumulated depreciation	(105,536,828)	(31,123,526)	(32,303,778)	(168,964,132)	(4,635,639)
Capital assets, net	424,947,831	120,684,908	132,932,088	678,564,827	6,397,978
Total noncurrent assets	432,847,831	127,976,969	140,365,975	701,190,775	6,397,978
Total assets	483,228,376	131,859,141	154,548,431	769,635,948	10,607,636
<b>LIABILITIES</b>					
Current liabilities:					
Vouchers payable	908,014	2,130,561	598,182	3,636,757	380,794
Contract retainage	17,823	409,728	207,464	635,015	-
Accrued interest	440,600	555,600	-	996,200	-
Accrued payroll	263,900	81,700	87,912	433,512	62,352
Internal balances	1,479,587	186,899	215,682	1,882,168	3
Obligations for Employees Retirement System	1,411,202	409,680	303,190	2,124,072	385,730
Current portion of bonds payable	10,645,610	3,961,944	3,260,999	17,868,553	-
Liabilities payable from restricted assets	2,515,100	-	2,021,818	4,536,918	-
Compensated absences	652,779	195,048	95,703	943,530	193,315
Other current liabilities	4,413,197	554,720	-	4,967,917	-
Total current liabilities	22,747,812	8,485,880	6,790,950	38,024,642	1,022,194
Noncurrent liabilities:					
General obligations payable	22,765,573	52,258,519	6,722,541	81,746,633	-
Revenue bonds payable	272,802,989	-	91,093,517	363,896,506	-
Compensated absences	153,121	75,852	132,161	361,134	77,751
Other long-term liabilities	-	-	-	-	12,260
Total noncurrent liabilities	295,721,683	52,334,371	97,948,219	446,004,273	90,011
Total liabilities	318,469,495	60,820,251	104,739,169	484,028,915	1,112,205
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt	126,615,836	71,346,777	39,081,456	237,044,069	6,385,718
Unrestricted	38,143,045	(307,887)	10,727,806	48,562,964	3,109,713
Total net assets	\$ 164,758,881	\$ 71,038,890	\$ 49,809,262	\$ 285,607,033	\$ 9,495,431



**CITY OF NORFOLK, VIRGINIA**  
**Statement of Revenues, Expenses, and Changes in Fund Net Assets**  
**Proprietary Funds**  
**For Year Ended June 30, 2005**

Exhibit B-2

	<b>Business-Type Activities</b>			Governmental
		Waste-	Parking	Activities
	Water	Water	Facilities	Internal Service
				Funds
Operating revenues:				
Charges for services	\$ 61,002,286	\$ 21,328,637	\$ 21,059,341	\$ 103,390,264
Miscellaneous	3,419,431	237,893	-	3,657,324
Total operating revenues	64,421,717	21,566,530	21,059,341	107,047,588
Operating expenses:				
Personal services	11,905,877	4,041,453	7,549,805	23,497,135
Cost of goods sold	-	-	-	-
Plant operations	4,937,669	1,689,992	735,469	7,363,130
Chemicals	2,446,167	137,905	-	2,584,072
Provision of bad debts	215,544	35,191	-	250,735
Depreciation	9,546,146	2,014,251	3,433,975	14,994,372
Retirement contribution	1,986,266	409,680	306,863	2,702,809
Administrative expenses	1,411,202	1,597,284	303,190	3,311,676
Other	14,681,967	1,683,205	1,088,962	17,454,134
Total operating expenses	47,130,838	11,608,961	13,418,264	72,158,063
Operating income	17,290,879	9,957,569	7,641,077	34,889,525
Nonoperating revenue (expenses):				
Interest income, net of interest capitalized	565,761	27,172	270,595	863,528
Interest expense and fiscal charges	(13,076,471)	(347,674)	(5,221,338)	(18,645,483)
Gain (loss) on sale or disposal of fixed assets	(70,119)	(69,591)	(756,278)	(895,988)
Unrealized loss on investments	(3,930)	-	47,440	43,510
Total nonoperating expenses	(12,584,759)	(390,093)	(5,659,581)	(18,634,433)
Net income (loss) before contributions and transfers	4,706,120	9,567,476	1,981,496	16,255,092
Transfers out	(8,500,000)	(1,500,000)	-	(10,000,000)
Change in net assets	(3,793,880)	8,067,476	1,981,496	6,255,092
Total net assets - beginning	168,552,761	62,971,414	47,827,766	279,351,941
Total net assets - ending	\$ 164,758,881	\$ 71,038,890	\$ 49,809,262	\$ 285,607,033



**CITY OF NORFOLK, VIRGINIA**

**Exhibit B-3**

**Statement of Cash Flows - Proprietary Funds  
Year Ended June 30, 2005**

	Business-Type Activities				Governmental
	Water	Waste-Water	Parking Facilities	Total	Activities-- Internal Service Funds
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Receipts from customers	\$ 66,825,801	\$ 20,976,136	\$ 21,264,235	\$ 109,066,172	\$ 11,606,151
Payments to suppliers	(25,300,376)	(4,297,995)	(1,877,255)	(31,475,626)	(8,043,054)
Payments to employees	(11,789,702)	(3,962,265)	(7,825,594)	(23,577,561)	(3,470,863)
Payment on notes payable	-	-	(190,000)	(190,000)	-
Other receipts (payments)	(99,039)	124,608	143,579	169,148	-
Net cash provided by operating activities	29,636,684	12,840,484	11,514,965	53,992,133	92,234
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>					
Internal activity	1,170,861	(1,889,011)	(6,796,442)	(7,514,592)	(7)
Operating subsidies and transfers to other funds	(8,500,000)	(1,500,000)	-	(10,000,000)	-
Net cash used by noncapital financing activities	(7,329,139)	(3,389,011)	(6,796,442)	(17,514,592)	(7)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>					
Proceeds from capital debt	22,810,000	18,685,168	63,645,000	105,140,168	-
Purchases of capital assets	(4,878,032)	(10,585,873)	(8,130,020)	(23,593,925)	-
Refunding of debt principal	(17,000,000)	(3,801,337)	(44,716,121)	(65,517,458)	-
Principal paid on capital debt	(12,320,446)	(3,763,566)	(3,533,961)	(19,617,973)	(45,019)
Interest paid on capital debt	(11,953,314)	(4,049,002)	(6,809,927)	(22,812,243)	-
Net cash provided (used) by capital and related financing activities	(23,341,792)	(3,514,610)	454,971	(26,401,431)	(45,019)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Proceeds from sales and maturities of investments	8,128,480	(5,008,570)	466,714	3,586,624	-
Purchase of investments	200,000	-	(4,117,000)	(3,917,000)	-
Interest and dividends	563,750	27,172	312,399	903,321	31,864
Net cash provided (used) by investing activities	8,892,230	(4,981,398)	(3,337,887)	572,945	31,864
Net increase in cash and cash equivalents	7,857,983	955,465	1,835,607	10,649,055	79,072
Cash and cash equivalents - beginning of the year	20,300,533	284,631	8,606,611	29,191,775	2,162,628
Cash and cash equivalents - end of the year	\$ 28,158,516	\$ 1,240,096	\$ 10,442,218	\$ 39,840,830	\$ 2,241,700
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities</b>					
Operating income (Loss)	\$ 17,290,879	\$ 9,957,569	\$ 7,641,077	\$ 34,889,525	\$ (501,501)
Adjustments to reconcile operating income (Loss) to net cash provided by operating activities:					
Depreciation expense	9,546,146	2,014,251	3,433,975	14,994,372	343,943
Capital assets, net	-	-	-	-	-
Provision for bad debt	215,544	35,191	-	250,735	-
Change in assets and liabilities:					
Receivables, net	(382,979)	(589,418)	204,894	(767,503)	22,062
Other receivables	2,787,063	(975)	-	2,786,088	-
Inventories	9,651	(7,275)	(41,459)	(39,083)	59,577
Other assets	240,341	-	185,038	425,379	18,120
Vouchers payable	153,246	1,227,346	254,039	1,634,631	240,109
Accrued payroll	28,600	1,100	1,696	31,396	(4,250)
Other liabilities	(251,807)	202,695	(164,295)	(213,407)	(85,826)
Net cash provided by operating activities	\$ 29,636,684	\$ 12,840,484	\$ 11,514,965	\$ 53,992,133	\$ 92,234
<b>Reconciliation of cash and cash equivalents to the statement of net assets:</b>					
Cash and cash equivalents	\$ 21,216,514	\$ 1,216,816	\$ 8,443,019	\$ 30,876,349	\$ 2,241,700
Restricted cash with fiscal agent	6,942,002	23,280	1,999,199	8,964,481	-
Total cash and cash equivalents per statement of net assets	\$ 28,158,516	\$ 1,240,096	\$ 10,442,218	\$ 39,840,830	\$ 2,241,700
<b>Noncash investing, capital, and financing activities:</b>					
Unrealized gain / (loss) on investments	\$ (3,930)	\$ 69,591	\$ 47,440	\$ 113,101	\$ -
Gain (loss) on sale or disposal of capital assets	\$ (70,119)	\$ -	\$ (756,278)	\$ (826,397)	\$ -
Acquisition of capital assets through change in contract retainage	\$ (28,373)	\$ 177,169	\$ 187,504	\$ 336,300	\$ -
Acquisition of capital assets through vouchers payable		\$ 326,237			
Capitalized interest, less interest earned on certain long-term construction contracts	\$ 3,053,337	\$ 1,319,789	\$ -	\$ 4,373,126	\$ -

**CITY OF NORFOLK, VIRGINIA**  
**Statement of Fiduciary Net Assets**  
**June 30, 2005**

Exhibit C-1

	Pension Trust	
	Employees' Retirement System	Agency Funds
<b>ASSETS</b>		
Cash and cash equivalents	\$ 39,495,181	\$ 5,949,487
Investments, fair value		
United States government securities	29,099,032	-
Corporate bonds and debentures, including obligations of national mortgage associations	184,044,212	-
Common stocks	111,747,337	-
Domestic equity funds	418,153,834	-
Domestic bond fund	65,095,631	-
Receivables:		
Accounts, net of allowance for uncollectible accounts	-	38,462
Retirement contribution	23,652,756	-
Accrued investment income	1,829,636	-
Due from broker for securities sold	17,756,114	-
Total assets	<u>890,873,733</u>	<u>5,987,949</u>
<b>LIABILITIES</b>		
Vouchers payable	276,267	342,849
Due to brokers for securities purchased	40,144,576	-
Other liabilities	-	5,645,100
Total liabilities	<u>40,420,843</u>	<u>5,987,949</u>
<b>NET ASSETS</b>		
Reserved for:		
Assets held in trust for pension benefits	850,452,890	-
Total net assets	<u>\$ 850,452,890</u>	<u>\$ -</u>

**CITY OF NORFOLK, VIRGINIA**  
**Statement of Changes in Fiduciary Net Assets**  
**Pension Trust Fund - Employees' Retirement System**  
**For the Year Ended June 30, 2005**

Exhibit C-2

	<u>2005</u>
<b>Additions:</b>	
Investment income:	
Net appreciation in fair value of investments	\$ 42,412,635
Interest	9,442,388
Dividends	4,052,884
Other	236,022
	<u>56,143,929</u>
Contributions	23,652,756
Less investment expense	(1,559,984)
Net investment income	<u>78,236,701</u>
 Total additions	 <u>78,236,701</u>
 <b>Deductions:</b>	
Benefits paid directly to participants	40,805,480
Refunds of contributions	42,918
Beneficiary payments	2,514,972
Administrative fees	540,770
Total deductions	<u>43,904,140</u>
 Net increase	 34,332,561
 <b>Net assets held in trust for pension benefits:</b>	
Beginning of year	816,120,329
End of year	<u>\$ 850,452,890</u>



**CITY OF NORFOLK, VIRGINIA**  
**Statement of Net Assets - Component Units**  
**June 30, 2005**

Exhibit D-1

	Norfolk Public Schools	Norfolk Redevelopment and Housing	Norfolk Community Services Board	Total
<b>ASSETS</b>				
Cash and cash equivalents	\$ 8,675,871	\$ 24,673,845	\$ 2,346,647	\$ 35,696,363
Cash held in escrow with fiscal agent	-	-	2,837	2,837
Restricted cash held with fiscal agent	-	3,644,480	-	3,644,480
Investments	-	9,746,497	3,746,301	13,492,798
Receivables:				
Accounts, net of allowance for uncollectible accounts	1,729,652	151,449	345,276	2,226,377
Tenants	-	140,057	-	140,057
Interest	-	1,205,065	11,851	1,216,916
Notes	-	53,851,919	-	53,851,919
Other	-	97,639	388,973	486,612
Due from primary government	8,602,693	-	-	8,602,693
Due from other governments	37,237,027	3,105,948	-	40,342,975
Due from other agencies	6,985,094	-	-	6,985,094
Inventories	858,111	546,351	-	1,404,462
Property held for sale	-	20,792,339	-	20,792,339
Restricted cash and investments	-	24,924,861	-	24,924,861
Prepaid expenses	-	14,712	51,596	66,308
Other assets	-	3,319,979	-	3,319,979
Capital assets, net	47,864,774	145,688,660	512,391	194,065,825
Total assets	111,953,222	291,903,801	7,405,872	411,262,895
<b>LIABILITIES</b>				
Vouchers/Accounts payable	4,335,145	2,475,527	390,157	7,200,829
Employee withholdings	4,608,124	-	-	4,608,124
Contract retainage	-	1,725,721	-	1,725,721
Accrued expenses	-	873,950	-	873,950
Accrued interest	-	714,695	-	714,695
Accrued payroll	21,643,341	-	351,466	21,994,807
Due to other agencies	1,970,551	-	-	1,970,551
Due to other governments	-	530,807	-	530,807
Tenants deposits	-	1,790,352	-	1,790,352
Other deposits/liabilities	-	12,464,438	-	12,464,438
Deferred revenue	-	26,126,265	620	26,126,885
Escrow deposits	-	96,358	2,837	99,195
Current vested compensated absences	236,483	206,491	555,644	998,618
Other current liabilities	577,820	16,524,513	797,825	17,900,158
Long-term vested compensated absences	6,651,145	1,642,104	192,314	8,485,563
Other long-term liabilities	816,252	71,560,891	-	72,377,143
Total liabilities	40,838,861	136,732,112	2,290,863	179,861,836
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	47,864,774	117,934,823	512,391	166,311,988
Restricted for:				
Capital projects	-	6,805,195	-	6,805,195
Debt service	-	5,599,074	-	5,599,074
Other programs	6,400,220	48,031,807	-	54,432,027
Unrestricted	16,849,367	(23,199,210)	4,602,618	(1,747,225)
Total net assets	\$ 71,114,361	\$ 155,171,689	\$ 5,115,009	\$ 231,401,059

# CITY OF NORFOLK, VIRGINIA

Exhibit D-2

## Statement of Activities - Component Units Year Ended June 30, 2005

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Norfolk Public Schools	Totals
<b>Norfolk Public Schools:</b>						
Instructional	\$ 255,020,452	\$ 2,439,736	\$ 219,257,898	\$ -	\$ (33,322,818)	\$ (33,322,818)
Administration, Attendance, and Health	10,766,893	-	-	-	(10,766,893)	(10,766,893)
Pupil Transportation	7,002,710	-	-	-	(7,002,710)	(7,002,710)
Operation and Maintenance	28,789,972	-	-	-	(28,789,972)	(28,789,972)
Information Technology	10,159,563	-	-	-	(10,159,563)	(10,159,563)
School Facilities	4,611,454	-	-	9,414,320	4,802,866	4,802,866
Food Services	12,898,000	4,029,406	9,518,196	-	649,602	649,602
<b>Total Norfolk Public Schools</b>	<b>329,249,044</b>	<b>6,469,142</b>	<b>228,776,094</b>	<b>9,414,320</b>	<b>(84,589,488)</b>	<b>(84,589,488)</b>
<b>Norfolk Redevelopment and Housing Authority:</b>						
Governmental activities:						
General Government	897,667	909,998	-	-	\$ 12,331	\$ 12,331
Community Development	71,902,607	9,612,940	61,001,397	15,720,283	14,432,013	14,432,013
Total governmental activities	72,800,274	10,522,938	61,001,397	15,720,283	14,444,344	14,444,344
Business-type activities	6,192,305	6,762,824	430,906	-	1,001,425	1,001,425
Component units	4,808,647	3,462,443	-	-	(1,346,204)	(1,346,204)
<b>Total NRHA</b>	<b>83,801,226</b>	<b>20,748,205</b>	<b>61,432,303</b>	<b>15,720,283</b>	<b>14,099,565</b>	<b>14,099,565</b>
<b>Community Services Board:</b>						
Health and public assistance	18,165,134	4,509,423	10,385,175	-	\$ (3,270,536)	\$ (3,270,536)
<b>Total component units</b>	<b>\$ 431,215,404</b>	<b>\$ 31,726,770</b>	<b>\$ 300,593,572</b>	<b>\$ 25,134,603</b>	<b>\$ (73,760,459)</b>	<b>\$ (73,760,459)</b>
General revenues:						
Gain (Loss) from sale of fixed assets					280,822	280,822
Interest and investment earnings					274,187	274,187
Local government					-	-
Miscellaneous					102,826	102,826
Special item - proceeds of long-term note receivable					8,949,251	8,949,251
Total general revenues					9,504,260	9,504,260
Change in net assets					23,603,825	23,603,825
Net assets--beginning					131,567,864	131,567,864
Restatement of fund balance					7,022,999	7,022,999
Net assets--ending					\$ 155,171,689	\$ 155,171,689





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# **NOTES TO THE BASIC FINANCIAL STATEMENTS**



**CITY OF NORFOLK, VIRGINIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2005**

	<b><u>Page</u></b>
<b>I Summary of Significant Accounting Policies</b>	<b>33</b>
A Financial Reporting Entity .....	33
B Government-wide and Fund Financial Statements .....	35
C Measurement Focus, Basis of Accounting, Financial Statement Presentation .....	36
D Budgets and Budgetary Accounting .....	38
E Deposits and Investments.....	39
F Restricted Assets.....	40
G Notes Receivable.....	40
H Interfund Transactions.....	40
I Inventories.....	41
J Capital Assets .....	41
K Compensated Absences.....	42
L Net Assets/Fund Equity.....	42
M Estimates.....	43
<b>II Deposits and Investments</b>	<b>43</b>
<b>III Property Taxes</b>	<b>47</b>
<b>IV Accounts Receivable</b>	<b>47</b>
A Unbilled Accounts Receivable .....	47
B Allowances for Uncollectible Accounts Receivable .....	48
<b>V Notes Receivable</b>	<b>48</b>
<b>VI Due From Other Governments</b>	<b>49</b>
<b>VII Changes in Capital Assets</b>	<b>49</b>
<b>VIII Long-Term Obligations</b>	<b>51</b>
A General Obligation and Revenue Bonds .....	51
B General Obligation Bonds.....	54
C. Revenue Bonds.....	54

**CITY OF NORFOLK, VIRGINIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2005**

<b>VIII</b>	<b>Long-Term Obligations (continued)</b>	
D	Derivatives – Interest Rate Swap.....	55
E	Other Notes and Loans.....	57
F	Advance Refundings.....	57
G	Capital Leases.....	58
H	Landfill Liability.....	59
I	Compensated Absences.....	59
J	Debt Limit.....	60
K	Bonds Authorized and Unissued.....	61
L	Changes in Long-Term Obligations.....	61
<b>IX</b>	<b>Other Liabilities</b>	63
A	Revenue Notes	63
B	Water Fund Liability	63
<b>X</b>	<b>Pension Plans</b>	64
A	Employees’ Retirement System of the City of Norfolk (System) .....	64
B	School Board – Retirement Plans .....	65
C	State Employees – Virginia Retirement System (VRS) .....	67
<b>XI</b>	<b>Deferred Compensation Plan</b>	69
<b>XII</b>	<b>Other Post-employment Benefits</b>	69
<b>XIII</b>	<b>Interfund Receivable and Payable Balances</b>	70
<b>XIV</b>	<b>Interfund Transfers</b>	71
<b>XV</b>	<b>Recovered Costs</b>	72
<b>XVI</b>	<b>Other Liabilities</b>	72
<b>XVII</b>	<b>Supplemental Appropriations</b>	73
<b>XVIII</b>	<b>Deferred Revenue</b>	73
A	Deferred grant funding .....	74
B	Deferred property tax revenue.....	74
C	Notes Receivable .....	74

**CITY OF NORFOLK, VIRGINIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2005**

D	Other .....	74
<b>XIX</b>	<b>Commitments and Contingencies</b>	<b>75</b>
A	Capital Projects .....	75
B	Contingent Liabilities .....	75
C	Litigation....	75
<b>XX</b>	<b>Surety Bonds and Insurance</b>	<b>76</b>
<b>XXI</b>	<b>Self and Purchased Insurance Program</b>	<b>76</b>
<b>XXII</b>	<b>Jointly Governed Organizations</b>	<b>77</b>
A	Hampton Roads Regional Jail Authority (HRRJA) .....	77
B	Hampton Roads Planning District Commission (the Commission) ....	78
C	Tidewater Transportation District Commission (TTDC) .....	78
<b>XXIII</b>	<b>Joint Venture</b>	<b>78</b>
<b>XXIV</b>	<b>Related Organizations</b>	<b>79</b>
A	Norfolk Airport Authority .....	79
B	The Economic Development Authority of the City of Norfolk (The Authority) .....	80
C	The Chrysler Museum, Inc. (the Museum) .....	80
D	The Hospital Authority of Norfolk.....	80
<b>XXV</b>	<b>Adjustments to Beginning Capital Assets and Net Assets</b>	<b>81</b>
<b>XXVI</b>	<b>Special Items</b>	<b>81</b>



**CITY OF NORFOLK, VIRGINIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2005**

**I. Summary of Significant Accounting Policies**

**A. Financial Reporting Entity Information**

The City of Norfolk (the “City”) was incorporated February 13, 1845 and operates under a charter adopted February 7, 1918, which mandates a Council-Manager form of government. The City and its component units provide the following municipal services to approximately 241,727 residents, as authorized by its charter or code: public safety, highway and street maintenance, water production and quality, solid waste management, wastewater treatment, cultural and parking facilities, environmental storm water management, public health, social programs, parks and recreation, public education, public improvements, planning and zoning code enforcement, public libraries, and general administration.

**Blended Component Unit:** *The Employees' Retirement System of the City of Norfolk (ERS)* has a nine-member Board of Trustees. Seven members are appointed by the City Council. The City Manager and Director of Finance are ex-officio members. The ERS is the administrator of a single-employer noncontributory defined benefit plan that covers substantially all employees of the City of Norfolk, excluding School Board employees and certain employees of the Constitutional Officers covered by the Virginia Supplemental Retirement System, as authorized by Section 143(a) of the City Charter. The ERS was established and placed under the management of the Board of Trustees for the purpose of providing retirement and death benefits as authorized by the provisions of Chapter 37 of the Norfolk City Code. The City makes its contributions, in conjunction with investment earnings of the ERS, to provide the funding for pension benefits and administrative costs.

**Discretely Presented Component Units:** Although legally separate entities are in substance part of the City's operations, each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government. The component units discussed below are included in the City's financial reporting entity due to their financial relationships with the City.

*The School Board of the City of Norfolk (School Board)*, which has seven members, is the operating body that establishes the educational and financial programs and policies for the City's public school system. School Board members are appointed by the City Council. The City levies taxes for its operation, issues bonds or enters into capital leases for its capital requirements and approves its annual operating budget. The School Board of the City of Norfolk is comprised of the School Operating Fund, Capital Project Fund, Child Nutrition Fund, the School Special Revenue Funds and the School Board Agency Funds.

**CITY OF NORFOLK, VIRGINIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2005**

*The Norfolk Redevelopment and Housing Authority (NRHA)*, a political subdivision of the Commonwealth, was created by the City on July 30, 1940 under the provisions of the United States Housing Act of 1937. NRHA provides subsidized public housing and administers redevelopment and conservation efforts within the City in accordance with State and federal legislation. The seven members of the Board of Commissioners are appointed by City Council. NRHA is responsible, through a contract with the City, for the administration of such activities as community development and urban renewal. NRHA develops its operating budget without approval from City Council and executes contracts on its own behalf. NRHA is responsible for its own fiscal matters as it maintains its own book of accounts, is audited annually by independent accountants it engages, and has authority over earnings, deficits and monies other than City contract funds. The City contracts with NRHA to complete specific projects, generally capital improvement projects. NRHA is considered to be a component unit of the City's reporting entity primarily due to its financial relationship.

In 1997, the City entered into a supplemental cooperation agreement with NRHA to assist in the financing and construction of the Nordstrom Store, in the MacArthur Center regional shopping mall. The construction of the Nordstrom's Store was financed with a loan partially secured by ground rental and store rental payments. The loan is further secured by a pledge of the City, subject to an appropriation of City Council, to fund any deficits in meeting annual debt service requirements.

*The Norfolk Community Services Board (CSB)* was created in 1969 by a resolution of the City Council. It is to provide mental health, mental retardation, and substance abuse services to residents of the City of Norfolk. The CSB is composed of 15 members appointed by City Council. City Council approves the CSB's annual operating budget.

Complete financial statements of the individual component units can be obtained from their respective administrative offices:

The City of Norfolk Retirement Board  
810 Union Street, City Hall Bldg. Rm. 309  
Norfolk, Virginia 23510

The School Board of the City of Norfolk  
800 East City Hall Avenue  
P O Box 1357  
Norfolk, Virginia 23501-1357

**CITY OF NORFOLK, VIRGINIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2005**

The Norfolk Redevelopment & Housing Authority  
201 Granby Street  
Norfolk, Virginia 23501

The Norfolk Community Services Board  
Board Administration  
248 West Bute Street  
Norfolk, Virginia 23510-1404

**B. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government and its component units. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate *component units* for which the *primary government* is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The City reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Debt Service Fund* accounts for the resources accumulated and payments made for principal and interest on long-term debt obligations of governmental funds and proprietary funds.

**CITY OF NORFOLK, VIRGINIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2005**

The *Capital Projects Fund* accounts for the acquisition and construction of major capital facilities of the City, some of which are also used by the School Board.

The City reports the following major proprietary funds:

The *Water Fund* accounts for the activities of the City's water treatment plant distribution systems.

The *Wastewater Fund* accounts for the activities of the City's sewage pumping stations and collection systems.

The *Parking Facilities Fund* accounts for the activities of the City's owned parking facilities.

Additionally, the City reports the following fund types:

*Internal Service Funds* account for the City's Storehouse operations and fleet management services provided to other departments or agencies of the City on a cost reimbursement basis.

The *Pension Trust Fund* accounts for the activities of the Employee's Retirement System, which accumulates resources for pension benefit payments to qualified employees.

The *Permanent Fund* is used to report resources that are legally restricted to the extent that only the interest may be used to support the City's cemetery operations.

The *Agency Funds* account for monies held in a fiduciary capacity.

**C. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Fiduciary fund financial statements do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The City's discretely presented component units are also included in the government-wide financial statements utilizing the same basis of accounting.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under

**CITY OF NORFOLK, VIRGINIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2005**

this method, revenue and related assets are recorded when they become susceptible to accrual, that is, when they become both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City generally considers revenues, except for grant revenues, to be available if they are collected within 60 days of the end of the fiscal year. Real and personal property taxes are recorded as receivables when levied and billed, which corresponds with the fiscal year for which the taxes have been levied, net of allowances for uncollectible accounts. In compliance with Section 2.9, Uniform Financial Reporting Manual for Virginia Counties and Municipalities, property taxes due and collected within 45 days after June 30 are recognized as revenue; those not collected within 45 days after year-end are reported as deferred revenue. Items such as license fees, permit fees and fines are recorded as revenue when received. Intergovernmental revenue, consisting primarily of federal, state and other grants for the purpose of funding specific expenditures, is recognized at the time the specific expenditures expected to be financed by this revenue are made. Revenue from general purpose grants is recognized during the entitlement period.

Major sources of governmental funds susceptible to accrual include the following:

- Real property taxes
- Personal property taxes
- Sales and use taxes
- Consumer utility taxes
- Environmental storm water billings
- Revenue from the Commonwealth
  - Shared expenses
  - Categorical aid
- Revenue from the federal government

Expenditures, other than interest on general long-term obligations, are recorded as the related fund liabilities when incurred. Interest on general long-term obligations is recognized when due.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's proprietary funds and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.



**CITY OF NORFOLK, VIRGINIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2005**

Amounts reported as *program revenues* include 1) charges for services, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues and expenses of the City's Water, Wastewater and Parking enterprise funds, and of the City's internal service funds are charges to customers for sales and services, administrative and interest expenses, and depreciation on capital assets. Revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

**D. Budgets and Budgetary Accounting**

An operating budget is adopted each fiscal year for the General Fund, Water Utility Fund, Wastewater Utility Fund, Parking Facilities Fund, Storm Water Special Revenue Fund, Nauticus Special Revenue Fund, Cemeteries Special Revenue Fund, Emergency Operations Center Special Revenue Fund, Golf Special Revenue Fund, Towing Special Revenue Fund, Capital Projects Fund and Internal Service Funds. All funds are under formal budgetary control.

No less than 60 days before the end of the fiscal year, the City Manager must submit to the City Council, a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them. A public hearing is conducted. Then, on or before July 1, the budget is legally enacted through adoption of an ordinance. The property taxes included in the budget become a lien on real properties on July 1.

The ordinance for the annual operating budget appropriates funds by department. Additional budgetary controls are exercised administratively, both on an appropriation unit basis over parts, all, or any combination of object categories (budgetary account groups such as: (1) personal services; (2) materials, supplies and repairs; (3) general operations and fixed charges; (4) equipment; (5) public assistance; and (6) all purpose appropriations), as well as on a line item basis over individual objects (budgetary accounts). The City Manager is authorized to transfer money within a fund without further approvals by City Council.

**CITY OF NORFOLK, VIRGINIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2005**

The School Board manages and controls all funds made available for public purposes by the City Council. In accordance with the Code of Virginia, the School Board has exclusive authority to expend funds within the total amounts appropriated by City Council.

Consistent with the enabling ordinance, the (*Schedules of Revenues and Expenditures – Budget and Actual*) of the General Fund presented in Exhibit E include the revenues and expenditures - budget and actual of the School Board.

A reconciliation of revenues and expenditures reported in accordance with accounting principles generally accepted in the United States (GAAP) and those presented in accordance with non-GAAP budgetary basis, for the general fund, can be found following Exhibit E-2. The budgets for the enterprise funds and internal service funds are prepared on a basis generally consistent with accounting principles generally accepted in the United States of America.

With the exception of Capital Projects and Grant appropriations, unencumbered annual appropriations lapse at the end of the fiscal year. City Council may authorize supplemental appropriations to the operating budgets during the fiscal year. Budgeted amounts as reported in the financial statements represent the original appropriations, and all supplemental adjustments or appropriations.

City Council adopts a capital improvement budget on a project basis. As in the case of the General Fund budget, these budgets are submitted by the City Manager, public hearings are held and the budgets are legally enacted through adoption of an ordinance. Appropriations for these budgets continue until the purpose of the appropriation has been fulfilled. Amendments to these budgets are affected by City Council.

**E. Deposits and Investments**

The City's cash and cash equivalents include cash on hand, demand deposits, and short term investments with original maturities of the three months or less from the date of acquisition.

Investments statutes authorize the City and the School Board to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank) and Asian Development Bank, commercial paper rated A-1 by Standard and Poor's Corporation or P-1 by Moody's Commercial Paper Record, bankers' acceptances, repurchase agreements and the State Treasurer's Local Government Investment Pool (LGIP). The fair value of the LGIP is the same as the value of the pool shares. The LGIP is not registered with the Securities and Exchange Commission (SEC) as an investment company, but

**CITY OF NORFOLK, VIRGINIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2005**

maintains a policy to operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. The external investment pool is administered by the Treasury Board of Virginia. The Pension Trust Fund is authorized to invest in common stocks.

Investments of the City as well as its component units are stated at fair value. Short-term investments are recorded at cost, which approximates fair value. Securities traded on a national securities exchange are valued at the last reported sales price on the last business day of the System's fiscal year. Purchases and sales of securities traded but not yet settled at year-end are recorded as due to broker for securities purchased and due from broker for securities sold, respectively. Other investments are stated at their fair value; these investments are reported in the accompanying financial statements as cash and cash equivalents, unless the original investment period exceeded three months, in which case they are reported as investments.

**F. Restricted Assets**

Restricted assets are those whose use is subject to externally imposed constraints such as creditors through debt covenants, grantors or laws or regulations of other governments.

**G. Notes Receivable**

Notes receivable reported in the governmental funds represent assets are offset by a reservation of fund balance in the fund financial statements since funds do not meet the availability criteria. Payments on these balances will be recognized as revenue as they are received.

**H. Interfund Transactions**

During the normal course of operations, the City has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets and service debt. The accompanying fund financial statements generally reflect such transactions as transfers.

Internal service funds record charges for services to all City departments and funds as operating revenue. All City funds record these payments to the internal service funds as operating expenditures or expenses. Since internal service funds generally support governmental activities rather than business-type activities, they are consolidated with the governmental funds in the government-wide financial statements. A discrete presentation of the City's internal service funds can be found in the "Other Supplementary Information" section of this document.

**CITY OF NORFOLK, VIRGINIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2005**

The General Fund provides administrative services to enterprise funds and internal service funds. Charges for these services are treated as operating expenses by the enterprise and internal service funds and as revenue by the General Fund in the fund financial statements.

**I. Inventories**

Inventories are stated at cost, using either the first-in, first-out, or the moving average method. Inventories in the governmental funds consist of expendable supplies held for consumption for which the cost is recorded as an expenditure when acquired, i.e., the "purchase method." Reported inventories in the governmental funds are offset by a fund balance reserve, indicating they are not currently available expendable resources. Proprietary funds expense inventories when consumed.

**J. Capital Assets**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported at historical cost less accumulated depreciation in the applicable governmental or business-type activities column in the government-wide financial statements and in proprietary funds. Capital assets are defined by the City's Capitalization Policy as assets with an initial, individual cost of more than \$2,000 and an estimated useful life greater than one year. Capital outlays of governmental funds are recorded as expenditures at the time of purchase and are not capitalized in the governmental funds. However, they are capitalized in the government-wide statement of governmental activities. Where historical cost records are not available, assets are recorded at estimated historical cost. Gifts or donated fixed assets are recorded at their estimated fair value on the date received. In the enterprise and internal service funds, interest costs incurred on funds borrowed for construction projects are capitalized net of interest earned on the temporary investment of the unexpended portion of those funds. When an asset is retired or otherwise disposed of, the related cost and accumulated depreciation are eliminated and any resulting gain or loss is reflected as nonoperating revenue or expense.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Capital assets purchased by enterprise and internal service funds are stated at cost, less accumulated depreciation.

Capital assets of the primary government, as well as the component units, are depreciated using the straight line method over the following estimated useful lives:

**CITY OF NORFOLK, VIRGINIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2005**

	<b>Governmental Funds</b>	<b>Enterprise Funds</b>	<b>Internal Service Funds</b>
		(In years)	
Building and improvements	40	10-75	40-50
Improvements other than buildings	15-25	10-99	15
Warehouse equipment and fixtures	-	-	7-10
Transmission and distribution mains	-	50-99	-
Service meters and meter installation	-	35-50	-
Pumping and other water/wastewater equipment	-	10-30	-
Vehicles and garage equipment	4-10	4-10	4-25
Data processing equipment	5-10	5-10	5-10
Furniture, fixtures and equipment	3-25	3-25	3-20

**K. Compensated Absences**

It is the City's and School Board's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Vacation leave is fully vested when earned by City employees. Sick leave does not vest for City employees; however, upon retirement, City employees receive credit for each day of accumulated sick leave toward their pension benefit. There is no liability for unpaid accrued sick leave service since the City does not pay when the employee separates from service. The entire unpaid liability for vacation leave is recorded in their respective funds in the government-wide financial statements.

Upon retirement, School Board employees are paid \$20 for each day of accumulated sick leave upon retirement. Accumulated vacation leave cannot exceed 50 days for School Board employees. School Board employees are paid for unused vacation leave, at their normal rate of pay, upon termination of employment. Most School Board food service employees have ten-month employment contracts and are not entitled to vacation.

**L. Net Assets/Fund Equity**

Net assets in government-wide and proprietary fund financial statements are classified as invested in capital assets, net of related debt; restricted; and unrestricted. Restricted net assets represent constraints on resources that are either externally imposed by creditors, grantors, contributors, laws and regulations of other governments or imposed by law through state statutes.

Reservations of fund balances are used to indicate that portion that is not appropriable for expenditures or to identify a portion of a fund's equity as legally segregated for a specific future use. Designations of unreserved fund balances in governmental funds are established to indicate City management's tentative plans for use of financial resources in a future period.



**CITY OF NORFOLK, VIRGINIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2005**

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

**M. Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**II. Deposits and Investments**

*Custodial Credit Risk - Deposits*

The City maintains a cash and investments pool for all funds except the Pension Trust and Permanent Funds. Each fund's portion of the pool is disclosed in the statement of net assets and balance sheet as cash and cash equivalents. The cash and investments of the Pension Trust and Permanent Funds are held separately from the pooled City funds.

In accordance with its investment policy, all deposits of the City and its Component Units are held in City Council designated official depositories and are collateralized in accordance with the Virginia Security for Public Deposits Act ("the Act"), Section 2.2-4400 et. seq. of the Code of Virginia or covered by federal depository insurance. Under the Act, banks holding public deposits in excess of the amounts insured by the FDIC must pledge collateral in the amount of 50% of excess deposits to a collateral pool in the name of the State Treasury Board. If any member financial institution whose public deposits are collateralized in accordance with the requirements of the Act fails, the entire market value of the collateral pool becomes available to satisfy the claims of governmental entities. If the value of the pool's collateral were inadequate to cover a loss, additional amounts would be assessed on a pro rata basis to members of the pool. The State Treasury Board is responsible for monitoring compliance with the collateralization and reporting requirements of the Act and for notifying local governments of compliance by banks.

*Custodial Credit Risk - Investments*

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Equity and fixed income investments (except for bank deposits) are not insured and are registered in the name of the City and held by State Street Bank as custodian. The remaining City

**CITY OF NORFOLK, VIRGINIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2005**

investments are held by the City or in the City's name by the City's custodial banks. The City has no policy regarding custodial credit risk for investments.

In accordance with its investment policy, NRHA invests temporary cash surpluses in repurchase agreements and cash equivalents. The repurchase agreement is fully collateralized by the U.S. Government and government agency securities pledged in NRHA's name. The collateral is held by the pledging financial institution in its own name.

*Interest rate risk*

Neither the City nor its Component Units have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

In accordance with its investment policy, NRHA manages its exposure to declines in fair value by investing operating funds in securities maturing in periods of up to one year, or a lesser period that coincides with expected disbursements. Investment of reserves not needed for operations are typically held to maturity. Currently, 69% of all reserves have been invested for three months or less.

**Segmented Time Distribution (as of June 30, 2005)**

Primary Government

Investment Type	Fair Value	Investment Maturities (in years)			
		Less than 1 year	1-5 years	6-10 years	10 years +
Domestic Equity Func	418,153,834	N/A	N/A	N/A	N/A
Common Stock	111,747,337	N/A	N/A	N/A	N/A
Bond Mutual Fund	28,778,103	-	-	-	28,778,103
U.S. Treasury Notes	3,829,581	3,829,581	-	-	-
U.S. Agency Notes	84,762,962	51,651,744	11,052,070	3,184,878	18,874,269
Mortgages	144,345,696	1,797	4,254,484	10,783,194	129,306,221
Floaters	3,529,064	-	-	-	3,529,064
Corporate Debt	72,486,980	4,900,837	22,822,785	4,892,698	39,870,660

**CITY OF NORFOLK, VIRGINIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2005**

NRHA

Investment Type	Fair Value	Investment Maturities (in years)		
		Less than 1 year	1-2 years	2-4 years
U.S. Agency Notes	34,058,224	25,672,499	4,448,915	3,936,810
Repurchase agreement	4,046,001	4,046,001	-	-
Commercial Paper	769,060	769,060	-	-

CSB

Investment Type	Fair Value	Less than 1 year	1-5 years	6-10 years	10 years +
Mutual Funds	53,772	53,772	-	-	-
Preferred Stock	1,250,000	1,250,000	-	-	-
US Government Securities	1,901,096	261,606	1,190,055	249,916	199,519

*Credit Risk*

Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The City's formal policy governing credit risk is that securities rated below investment grade by two of the three primary rating agencies, Moody's, Fitch Ratings, and Standard and Poor's are not permitted. The City invests in certain derivatives including real estate mortgage investment conduits and collateralized mortgage obligations. Those securities are included in reported investments in the Retirement System financial statements. Investments in derivatives with a cost of \$57,212,538 and a market value of \$57,283,638 were held at June 30, 2005. The City's rated debt investments as of June 30, 2005 were rated by Standard and Poor's and/or an equivalent national rating organization and the ratings are presented below using the S&P's credit quality rating scale.

**CITY OF NORFOLK, VIRGINIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2005**

<b>The Primary Government's Rated Debt Investment</b>					
<b>Fair Quality Ratings (S&amp;P)</b>	<b>Bond Mutual Fund</b>	<b>US Agency Notes</b>	<b>Mortgages</b>	<b>Floaters</b>	<b>Corporate Debt</b>
<b>AAA</b>	-	37,073,718	139,394,909	3,529,064	5,502,582
<b>AA2</b>	-	-	-	-	20,970,973
<b>AA+</b>	-	-	-	-	109,277
<b>AA</b>	28,778,103	-	4,950,787	-	10,395,769
<b>AA-</b>	-	-	-	-	499,096
<b>A+</b>	-	-	-	-	10,054,836
<b>A-1+</b>	-	45,850,244	-	-	-
<b>A-1</b>	-	1,839,000	-	-	-
<b>A</b>	-	-	-	-	8,718,579
<b>A-</b>	-	-	-	-	741,256
<b>BBB+</b>	-	-	-	-	6,610,441
<b>BBB</b>	-	-	-	-	4,546,116
<b>BBB-</b>	-	-	-	-	857,197
<b>BB+</b>	-	-	-	-	2,104,780
<b>BB</b>	-	-	-	-	1,376,078

The City held \$418,153,834 in domestic equity funds and \$111,747,337 in common stock which are unrated securities.

The CSB's investments in US Government Securities and preferred stock were rated AAA by Standard and Poor's. Its mutual funds and certificates of deposit were unrated.

In accordance with its investment policy, NRHA's repurchase agreement represents an overnight investment of excess cash deposits with a bank and is collateralized under the Act. The \$769,060 investment in commercial paper is AAA rated.

*Concentration of credit risk*

Concentration risk is the risk of loss attributed to the magnitude of a system's investment in a single issuer. Mutual funds are excluded from this disclosure requirement. Neither the City nor its Component Units have a formal investment policy regarding the amount it may invest in any one issuer.

*Foreign Currency Risk*

Neither the City nor its Component Units have a formal policy to limit foreign currency risk. Risk of loss arises from changes in currency exchange rates. Neither the City nor its Component Units had exposure to foreign currency risk at year end.

**CITY OF NORFOLK, VIRGINIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2005**

**III. Property Taxes**

Local real property assessments are made under the direction of a City Assessor appointed by the City Council. The City has the power to levy taxes on property located within its boundaries for payment of its obligations without limitation as to rate or amount. Rates are established by the City Council. The rates in effect for the year ended June 30, 2005, on each \$100 of assessed value, were \$1.35 for real property, \$.18 for the Downtown Service District, \$4.00 for personal property, \$1.50 for recreational vehicles, \$4.00 for machinery and tools, \$1.40 for mobile homes, \$2.40 for airplanes, \$.01 for pleasure boats and \$1.50 for business boats. Disabled veterans pay a discount rate of \$3.00 for personal property.

**The property tax calendar is as follows:**

	<b>Real Property</b>	<b>Other than Real Property</b>
Lien date	July 1	January 1
Levy date for existing property	July 1	January 1
Levy date for real property improvement, new construction or newly acquired property	October 1, January 1 and April 1	Date of Acquisition
Due dates	September 30, December 5, March 31 and June 5	June 5 or 30 days after acquisition
Collection dates	On or before due date	

In the event any installment of taxes on any of the above properties is not paid on or before the due date, penalties and interest are assessed in accordance with the City Code.

**IV. Accounts Receivable**

**A. Unbilled Accounts Receivable:**

Following is a summary by fund of unbilled accounts receivable recognized at June 30, 2005:

Water Utility Fund	\$ 1,150,375
Wastewater Utility Fund	929,935
	<u>\$ 2,080,310</u>



**CITY OF NORFOLK, VIRGINIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2005**

The associated revenue is included in net charges for services.

**B. Allowances for Uncollectible Accounts Receivable**

Allowances for uncollectible accounts receivable are generally established using historical collection data, specific account analysis and subsequent cash receipts. The allowances at June 30, 2005 are as follows:

**Primary Government:**

General Fund:	
Taxes	\$ 14,200,000
Accounts	<u>12,586,800</u>
	26,786,800
Special Revenue - Storm Water Fund	198,100
Water Utility Fund	1,622,612
Wastewater Utility Fund	<u>472,333</u>
<b>Total - Primary Government</b>	<b><u>\$ 29,079,845</u></b>

**Component Units:**

Norfolk Public Schools	\$ 22,401
Norfolk Redevelopment and Housing Authority	16,529
Community Services Board	<u>49,475</u>
<b>Total - Component Units</b>	<b><u>\$ 88,405</u></b>

**V. Notes Receivable**

Notes receivable, at June 30, are as follows:

**Primary Government: General Fund**

WHRO (Hampton Roads Educational Telecommunications Association, Inc.) \$111,982

Total Primary government \$111,982

**Component Unit: Norfolk Redevelopment and Housing Authority** \$53,851,919

**CITY OF NORFOLK, VIRGINIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2005**

**VI. Due From Other Governments**

Amounts due from other governments, at June 30, are as follows:

	General	Total	Component Units	
	Fund	Primary	School	NRHA
		Government	Board	
Other:				
Various grants/reimbursements	\$ -	\$ -	\$ -	\$ 3,105,948
Commonwealth of Virginia:				
Shared expenses	5,605,363	5,605,363	-	-
Categorical aid	8,714,345	8,714,345	-	-
Noncategorical aid	11,159,704	11,159,704	-	-
Various grants	-	-	17,117,558	-
<b>Total - Commonwealth</b>	<b>25,479,412</b>	<b>25,479,412</b>	<b>17,117,558</b>	<b>-</b>
Federal Government:				
Various grants	-	-	20,119,469	-
<b>Total - Federal</b>	<b>-</b>	<b>-</b>	<b>20,119,469</b>	<b>-</b>
<b>Total - Due from other governments</b>	<b>\$ 25,479,412</b>	<b>\$ 25,479,412</b>	<b>\$ 37,237,027</b>	<b>\$ 3,105,948</b>

**VII. Changes in Capital Assets**

A summary of changes in capital assets, at June 30, follows:

**CITY OF NORFOLK, VIRGINIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2005**

	Primary Government			
	Beginning Balance *	Additions	Retirements	Ending Balance
<b>Governmental activities</b>				
Non-depreciable capital assets:				
Land	\$ 27,337,486	\$ 6,113,570	\$ -	\$ 33,451,056
Construction in progress	60,727,669	31,478,196	(20,515,439)	71,690,426
Total non-depreciable assets	88,065,155	37,591,766	(20,515,439)	105,141,482
Depreciable assets:				
Buildings	497,278,494	5,119,051	(1,387,734)	501,009,811
Improvements other than buildings	20,668,145	-	-	20,668,145
Equipment	92,998,563	9,666,837	(4,028,152)	98,637,248
Infrastructure	1,049,385,413	7,657,398	(2,928,668)	1,054,114,143
Total depreciable assets	1,660,330,615	22,443,286	(8,344,554)	1,674,429,347
Less accumulated depreciation:				
Buildings	(192,532,387)	(12,267,857)	1,387,734	(203,412,510)
Improvements other than buildings	(10,155,957)	(512,665)	-	(10,668,622)
Equipment	(47,706,858)	(6,858,670)	3,829,732	(50,735,796)
Infrastructure	(665,572,774)	(45,575,799)	2,774,903	(708,373,670)
Total accumulated depreciation	(915,967,976)	(65,214,991)	7,992,369	(973,190,598)
Depreciable assets, net	744,362,639	(42,771,705)	(352,185)	701,238,749
Total governmental activities capital assets, net	\$ 832,427,794	\$ (5,179,939)	\$ (20,867,624)	\$ 806,380,231
<b>Business-type activities</b>				
Non-depreciable capital assets:				
Land	\$ 42,290,858	\$ 357,470	\$ (120,805)	\$ 42,527,523
Construction-in-progress	103,571,491	15,571,274	(45,643,223)	73,499,542
Total non-depreciable assets	145,862,349	15,928,744	(45,764,028)	116,027,065
Depreciable assets:				
Land improvements	7,108,785	-	-	7,108,785
Buildings and equipment	671,489,109	55,420,970	(2,516,970)	724,393,109
Total depreciable assets	678,597,894	55,420,970	(2,516,970)	731,501,894
Less accumulated depreciation:				
Buildings and equipment	(155,581,307)	(14,994,372)	1,611,547	(168,964,132)
Depreciable assets, net	523,016,587	40,426,598	(905,423)	562,537,762
Total business-type activities capital assets, net	\$ 668,878,936	\$ 56,355,342	\$ (46,669,451)	\$ 678,564,827
<b>Component Units activities</b>				
Non-depreciable capital assets:				
Land and Construction in progress	\$ 41,568,723	\$ 17,793,870	\$ (3,323,816)	\$ 56,038,777
Depreciable assets:				
Buildings	121,672,931	3,178,706	(1,693,533)	123,158,104
Improvements other than buildings	54,339,654	750,044	(550,000)	54,539,698
Building improvements	31,056,140	13,463,642	(2,580,601)	41,939,181
Equipment	49,047,838	5,767,381	(1,052,214)	53,763,005
Total depreciable assets	256,116,563	23,159,773	(5,876,348)	273,399,988
Less accumulated depreciation:				
Buildings and equipment	(126,078,834)	(12,956,686)	3,662,580	(135,372,940)
Depreciable assets, net	130,037,729	10,203,087	(2,213,768)	138,027,048
Total component unit activities capital assets, net	\$ 171,606,452	\$ 27,996,957	\$ (5,537,584)	\$ 194,065,825

.\* As restated - See Note XXV.

**CITY OF NORFOLK, VIRGINIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2005**

Depreciation expense was charged to governmental activities as follows:

<b>General government activities</b>	\$	5,090,254
Judicial administration		1,264,528
Public safety		3,278,883
Public works, which includes the depreciation of infrastructure assets		47,932,347
Health and sanitation		630,797
Culture and recreation		4,214,124
Community development		2,460,115
In addition, depreciation on capital assets held by the City's internal service funds is charged to the various functions based on their usage of the assets		343,943
Total depreciation expense	\$	<u>65,214,991</u>
<b>Business-type activities</b>		
Water Utility Fund	\$	9,546,146
Wastewater Fund		2,014,251
Parking Funds		3,433,975
Total depreciation expense	\$	<u>14,994,372</u>
<b>Component unit activities</b>		
Community Services Board	\$	145,960
NRHA		6,500,362
Schools		6,310,364
Total depreciation expense	\$	<u>12,956,686</u>

The following is a summary by fund of interest expense/revenue capitalized during the fiscal year ended June 30, 2005:

	<b>Interest Expense</b>	<b>Interest Revenue</b>	<b>Net Capitalized</b>
Water Utility Fund	\$ 3,647,308	\$ (593,970)	\$ 3,053,338
Wastewater Utility Fund	1,319,789	-	1,319,789
	<u>\$ 4,967,097</u>	<u>\$ (593,970)</u>	<u>\$ 4,373,127</u>

## **VIII. Long-Term Obligations**

### **A. General Obligation and Revenue Bonds**

The City has traditionally issued general obligation or revenue bonds to provide funds for the construction and acquisition of major capital facilities. General obligation bonds have been issued for both governmental and business-type

**CITY OF NORFOLK, VIRGINIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2005**

activities. In 1993 and 1997 the City established Water Revenue and Parking Revenue bond programs, respectively.

General obligation bonds are direct obligations and pledge the full faith and credit of the City. Revenue bonds are limited liability obligations where revenues derived from the respective acquired or constructed assets are pledged to pay debt service.

A summary of general obligation bond and revenue bond transactions for the fiscal year ended June 30, 2005 follows:

	Governmental Activities	Business-Type Activities		
		Water Utility Bonds	Wastewater Utility Bonds	Parking Facilities Bonds
General obligation bonds outstanding at July 1, 2004	\$ 398,605,757*	\$ 30,320,733	\$ 47,205,745	\$ 10,109,445
Bonds retired	(35,752,761)	(4,967,264)	(3,763,566)	(1,903,961)
Bonds refunded	(30,389,362)	(1,103,180)	(3,801,337)	(366,121)
Bonds issued	88,544,842	-	18,685,158	-
Bonds outstanding at June 30, 2005	421,008,476	24,250,289	58,326,000	7,839,363
Unamortized (discount)/premium	15,851,815	2,580,894	(2,105,537)	194,178
General obligation bonds outstanding June 30, 2005 adjusted for unamortized (discount)/premium	<u>\$ 436,860,291</u>	<u>\$ 26,831,183</u>	<u>\$ 56,220,463</u>	<u>\$ 8,033,541</u>
Revenue bonds outstanding at July 1, 2004		\$ 284,405,000	\$ -	\$ 81,059,000
Bonds retired		(6,250,000)	-	(1,630,000)
Bonds refunded		-	-	-
Bonds refunded		(17,000,000)	-	(44,350,000)
Bonds issued		22,810,000	-	63,645,000
Bonds outstanding at June 30, 2005		283,965,000	-	98,724,000
Less unamortized discount		(4,582,011)	\$ -	(5,680,484)
Revenue bonds outstanding @ June 30, 2005 adjusted for unamortized discount/premium		<u>\$ 279,382,989</u>	<u>\$ -</u>	<u>\$ 93,043,516</u>

- \* Includes a Section 108 loan with the Department of Housing and Urban Development (HUD) in the amount of \$13,000,000. This loan issued on June 3, 2004, was previously recorded as a note, but subsequently reflected as a general obligation bond. Revenues from the Broad Creek Tax Increment Financing (TIF) District are the primary revenue pledge to support the bonds' debt device. In Virginia, this TIF pledge constitutes a general obligation when determining the City's legal debt margin.



**CITY OF NORFOLK, VIRGINIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2005**

General obligation and revenue bonds outstanding at June 30, 2005 are composed of the following individual issues:

Bond Issue/Purpose	Dated	Issue Amount	Interest Rate	Governmental Activities				Balance Outstanding
				Public Improvement		Business-type Activities		
				Allocation	Water Utility Allocation	Wastewater Utility Allocation	Parking Facilities Allocation	
Series 1989 Property Acquisition	7/11/1989	\$ 1,500,000	6.76%	\$ 1,500,000	\$ -	\$ -	\$ -	\$ 1,500,000
Series 1993A Refunding	6/1/1993	\$ 29,065,000	4.00 - 5.00%	\$ 20,835,767	\$ 5,347,960	\$ 965,177	\$ 1,916,096	\$ 2,555,002
Series 1995 Capital Improvement	5/1/1995	\$ 50,000,000	5.25 - 6.00%	\$ 39,000,000	\$ -	\$ 11,000,000	\$ -	\$ 2,500,000
Series 1996 Capital Improvement	3/1/1996	\$ 60,000,000	5.125 - 5.25%	\$ 55,000,000	\$ -	\$ 5,000,000	\$ -	\$ 6,000,000
Series 1997 Capital Improvement	4/15/1997	\$ 43,975,000	5.25 - 5.375%	\$ 34,975,000	\$ -	\$ 9,000,000	\$ -	\$ 6,600,000
Series 1997 QRB	4/15/1997	\$ 4,000,000	5.25 - 5.75%	\$ 4,000,000	\$ -	\$ -	\$ -	\$ 2,400,000
Series 1998 Capital Improvement	6/15/1998	\$ 44,330,000	4.25 - 5.00%	\$ 35,330,000	\$ -	\$ 9,000,000	\$ -	\$ 15,485,000
Series 1998 Refunding	6/15/1998	\$ 49,190,000	4.25 - 5.00%	\$ 31,781,792	\$ 10,692,696	\$ 3,166,844	\$ 3,548,668	\$ 44,115,001
Series 1998 QRB	9/15/1998	\$ 2,560,000	4.70 - 5.10%	\$ 2,560,000	\$ -	\$ -	\$ -	\$ 1,815,000
Series 1999 Capital Improvement	7/1/1999	\$ 11,700,000	4.50 - 5.00%	\$ 11,700,000	\$ -	\$ -	\$ -	\$ 4,095,000
Series 1999 QRB	7/1/1999	\$ 4,000,000	4.55 - 5.30%	\$ 4,000,000	\$ -	\$ -	\$ -	\$ 3,000,000
Series 1999 QZAB	8/19/1999	\$ 7,000,000	none	\$ 7,000,000	\$ -	\$ -	\$ -	\$ 3,769,228
Series 2000 Capital Improvement	7/15/2000	\$ 18,025,000	5.00 - 5.25%	\$ 18,025,000	\$ -	\$ -	\$ -	\$ 8,105,000
Series 2000 QRB	7/15/2000	\$ 3,995,000	5.125 - 5.65%	\$ 3,995,000	\$ -	\$ -	\$ -	\$ 3,195,000
Series 2000 QZAB	11/22/2000	\$ 3,637,170	none	\$ 3,637,170	\$ -	\$ -	\$ -	\$ 2,518,041
Series 2001 QZAB	12/27/2001	\$ 1,062,830	none	\$ 1,062,830	\$ -	\$ -	\$ -	\$ 674,818
Series 2002 QRB	2/1/2002	\$ 7,955,000	3.00 - 5.00%	\$ 7,955,000	\$ -	\$ -	\$ -	\$ 6,755,000
Series 2002 Capital Improvement	2/1/2002	\$ 27,000,000	2.00 - 5.00%	\$ 24,467,280	\$ -	\$ 2,532,720	\$ -	\$ 18,900,000
Series 2002 Refunding	2/1/2002	\$ 47,200,000	2.00 - 5.00%	\$ 30,796,042	\$ 8,352,561	\$ 6,047,528	\$ 2,003,869	\$ 28,235,000
Series 2002 Property Acquisition	8/14/2002	\$ 3,400,000	5.38%	\$ 3,400,000	\$ -	\$ -	\$ -	\$ 3,400,000
Series 2002B Capital Improvement	11/1/2002	\$ 34,600,000	3.00 - 5.00%	\$ 34,600,000	\$ -	\$ -	\$ -	\$ 31,140,000
Series 2002B Refunding	11/1/2002	\$ 39,890,000	5.00 - 5.25%	\$ 30,924,301	\$ 2,905,660	\$ 4,268,690	\$ 1,791,349	\$ 36,325,000
Series 2003 VRA	4/8/2003	\$ 10,000,000	3.50%	\$ -	\$ -	\$ 10,000,000	\$ -	\$ 9,819,060
Series 2003 Capital Improvement	11/15/2003	\$ 57,110,000	2.00 - 5.00%	\$ 56,010,000	\$ -	\$ 1,100,000	\$ -	\$ 54,250,000
Series 2003 Refunding	11/15/2003	\$ 12,265,000	3.00 - 4.00%	\$ 10,760,189	\$ 4,313	\$ 1,336,099	\$ 164,399	\$ 12,215,000
Series 2004 Refunding	3/1/2004	\$ 96,395,000	2.00 - 5.00%	\$ 73,134,610	\$ 10,552,847	\$ 9,405,428	\$ 3,302,115	\$ 81,885,002
Series 2004 HUD	3/3/2004	\$ 13,000,000	4.32 - 6.01%	\$ 13,000,000	\$ -	\$ -	\$ -	\$ 13,000,000
Series 2004 Property Acquisition	7/29/2004	\$ 1,775,000	5.38%	\$ 1,775,000	\$ -	\$ -	\$ -	\$ 1,717,976
Series 2004 VRA	9/17/2004	\$ 11,100,000	3.10%	\$ -	\$ -	\$ 11,100,000	\$ -	\$ 11,100,000
Series 2005 Capital Improvement	3/16/2005	\$ 59,320,000	2.50 - 5.00%	\$ 57,405,000	\$ -	\$ 1,915,000	\$ -	\$ 59,320,000
Series 2005 Refunding	3/16/2005	\$ 35,035,000	2.50 - 5.00%	\$ 29,364,842	\$ -	\$ 5,670,158	\$ -	\$ 35,035,000
Total General Obligation Bonds								\$ 511,424,128

Bond Issue/Purpose	Dated	Interest Rate	Business-type Activities		Balance Outstanding
			Water Utility	Parking Facilities	
Series 1993 Water Revenue	11/1/1993	2.80 - 5.375%	\$ 68,430,000	\$ -	\$ 54,020,000
Series 1995 Water Revenue	8/15/1995	5.00 - 7.00%	\$ 115,680,000	\$ -	\$ 98,400,000
Series 1998 Water Revenue and Refunding	11/1/1998	4.00 - 5.125%	\$ 84,605,000	\$ -	\$ 75,540,000
Series 1999 Parking System Revenue	2/15/1999	4.00 - 5.00%	\$ -	\$ 17,475,000	\$ 14,220,000
Series 2001 Water Revenue and Refunding	10/15/2001	4.00 - 5.00%	\$ 35,000,000	\$ -	\$ 33,195,000
Series 2000A Variable Rate Parking System Revenue	10/26/2000	Variable	\$ -	\$ 10,180,000	\$ 4,390,000
Series 2000B Parking System Revenue and Refunding	10/1/2000	5.50 - 5.67%	\$ -	\$ 17,860,000	\$ 15,155,000
Series 2003I Subordinate Parking System Revenue	7/11/2003	4.50%	\$ -	\$ 1,474,000	\$ 1,189,000
Series 2003II Subordinate Parking System Revenue	7/11/2003	4.50%	\$ -	\$ 435,000	\$ 340,000
Series 2004A Variable Rate Parking System Revenue	10/28/2004	Variable	\$ -	\$ 6,695,000	\$ 6,695,000
Series 2004B Parking System Revenue	10/28/2004	2.50 - 5.00%	\$ -	\$ 30,905,000	\$ 30,690,000
Series 2005 Water Revenue and Refunding	3/23/2005	3.50 - 5.00%	\$ 22,810,000	\$ -	\$ 22,810,000
Series 2005 Parking System Revenue Refunding	6/15/2005	2.50 - 5.00%	\$ -	\$ 26,045,000	\$ 26,045,000
Total Revenue Bonds					\$ 382,689,000

The Parking system's variable rates bonds are remarketed weekly and are generally anticipated to be 0.05% to 0.10% higher than the one-month London Interbank Offered Rate.

**CITY OF NORFOLK, VIRGINIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2005**

**B. General Obligation Bonds**

A summary of the requirements to amortize general obligation bonds are as follows:

<b>Year Ending June 30,</b>	<b>Governmental Activities</b>		<b>Business-type Activities</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
2006	\$ 37,713,108	\$ 18,549,260	\$ 9,338,555	\$ 3,836,119
2007	35,898,468	16,988,279	9,236,727	3,580,652
2008	35,323,649	15,605,374	9,649,475	3,189,959
2009	34,843,517	14,008,766	9,383,269	2,859,459
2010	32,357,213	12,668,068	8,159,316	2,360,861
2011-2015	125,222,446	43,656,287	26,318,183	6,246,094
2016-2020	75,250,096	20,250,300	10,161,780	2,392,763
2021-2025	40,999,979	5,190,120	7,422,941	798,790
2026-2030	-	913,750	745,405	17,375
2031-2034	3,400,000	403,065	-	-
<b>Total</b>	<b>\$ 421,008,476</b>	<b>\$ 148,233,269</b>	<b>\$ 90,415,652</b>	<b>\$ 25,282,073</b>

The detailed requirements to amortize general obligation bonds for the major proprietary funds are as follows:

<b>Year Ending June 30,</b>	<b><u>Water Utility Fund</u></b>		<b><u>Wastewater Utility Fund</u></b>		<b><u>Parking Facilities Fund</u></b>	
	<b><u>Principal</u></b>	<b><u>Interest</u></b>	<b><u>Principal</u></b>	<b><u>Interest</u></b>	<b><u>Principal</u></b>	<b><u>Interest</u></b>
2006	\$ 4,065,610	\$ 1,454,708	\$ 3,961,945	\$ 1,939,584	\$ 1,310,999	\$ 441,827
2007	3,775,360	1,255,929	4,284,202	1,960,428	1,177,165	364,295
2008	3,963,830	976,690	4,486,894	1,930,273	1,198,751	282,997
2009	3,809,902	835,994	4,474,271	1,787,528	1,099,096	235,938
2010	2,866,922	538,133	4,258,402	1,618,596	1,033,992	204,131
2011-2015	5,768,665	572,592	18,530,160	5,471,784	2,019,359	201,719
2016-2020	-	-	10,161,780	2,392,763	-	-
2021-2025	-	-	7,422,941	798,790	-	-
2026	-	-	745,405	17,375	-	-
<b>Total</b>	<b>\$ 24,250,289</b>	<b>\$ 5,634,045</b>	<b>\$ 58,326,000</b>	<b>\$ 17,917,121</b>	<b>\$ 7,839,363</b>	<b>\$ 1,730,907</b>

**C. Revenue Bonds**

The Water Revenue bond covenants require that each year's water utility fund net revenue not be less than the greater of (i) the sum of 1.1 times senior debt service and 1.0 times subordinated debt service or (ii) 1.0 times the funding requirements for

**CITY OF NORFOLK, VIRGINIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2005**

transfers from the revenue fund to the operating fund, the bond fund, the parity debt service fund, the debt service reserve fund, the subordinate debt service fund, the repair and replacement reserve fund and the rate stabilization fund. Pursuant to the terms of the revenue bond indenture, certain resources have been set aside for the repayment of the revenue bonds. These resources are classified as restricted cash and investments on the balance sheet because their use is limited by applicable bond covenants.

The Parking Revenue bond covenants require that each year's parking facilities fund net revenue not be less than the greater of (i) the sum of 1.25 times senior debt service and 1.0 times subordinated debt service and (ii) 1.0 times the funding requirements for transfers from the revenue fund to the operating fund, the bond fund, the parity debt service fund, the debt service reserve fund, the MacArthur Center Garage reserve fund, the repair and replacement reserve fund, the surety bond interest fund and the subordinate debt service fund. Pursuant to the terms of the revenue bond indenture, certain resources have been set aside for the repayment of the revenue bonds. These resources are classified as restricted investments on the balance sheet because their use is limited by applicable bond covenants.

The detailed requirements to amortize water and parking revenue bonds are as follows:

<u><b>Year Ending June 30,</b></u>	<u><b>Water Revenue</b></u>		<u><b>Parking Revenue</b></u>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
2006	\$ 6,580,000	\$ 14,827,960	\$ 1,950,000	\$ 4,319,064
2007	7,310,000	14,379,821	2,015,000	4,711,306
2008	7,665,000	14,022,200	2,125,000	4,642,249
2009	8,050,000	13,639,869	2,230,000	4,529,988
2010	8,455,000	13,232,930	2,560,000	4,437,659
2011-2015	49,385,000	59,052,699	14,084,000	20,408,310
2016-2020	64,285,000	44,136,610	17,010,000	16,909,367
2021-2025	79,660,000	24,259,877	21,775,000	12,407,565
2026-2030	41,075,000	6,746,336	25,435,000	6,482,445
2031-2035	10,135,000	1,240,050	9,540,000	977,382
2036	1,365,000	31,566	-	-
<b>Total</b>	<b>\$ 283,965,000</b>	<b>\$ 205,569,917</b>	<b>\$ 98,724,000</b>	<b>\$ 79,825,332</b>

**D. Derivatives – Interest Rate Swap**

*Objective of the interest rate swap.* As a means to hedge the City's parking enterprise operations exposure to taxable variable interest rates, the City entered into an interest rate swap in connection with its taxable \$10,180,000 Variable Rate

**CITY OF NORFOLK, VIRGINIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2005**

Parking System Revenue Bonds, Series 2000A. The intention of the swap was to effectively change the City's interest rates on the bonds to a fixed rate of 4.70 percent.

*Terms.* The bonds mature on February 1, 2009. The swap agreement matures on February 1, 2007, and the swap's notional amount was \$4,390,000 on June 30, 2005. The notional amount on the swap declines in conjunction with the associated debt. Under the swap, the City pays the counterparty a fixed payment of 4.70 percent and receives a variable payment based on the London Interbank Offered Rate (LIBOR). At June 30, 2005, the bonds were remarketed at 3.32 percent.

*Fair Value.* Because interest rates have declined since the execution of the swap, the swap on a market to market valuation has a negative fair value to the City of \$50,015 as of June 30, 2005.

*Credit Risk.* As of June 30, 2005, the City was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the city would be exposed to credit risk in the amount of the derivative's fair value. The swap counterparty was rated AA by Fitch, AA- by Standard and Poor's and Aa1 by Moody's Investors Service as of June 30, 2005.

*Basis Risk.* The swap exposes the city to basis risk should the relationship between LIBOR and the remarketed rate diverges, changing the synthetic rate on the bonds. If a change occurs that results in the rates' moving to convergence, the expected cost savings may not be realized.

*Termination Risk.* The contract uses the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The Schedule to the Master Agreement includes an additional termination event if at any time the counterparty ceases to be obligated to extend credit in the credit agreement for the underlying bonds.

*Swap Payments and Associated Debt.* As of June 30, 2005, debt service requirements of the variable rate debt and net swap payments, assuming current interest rates remain the same, for their term were as follows:

**CITY OF NORFOLK, VIRGINIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2005**

<b>Fiscal Year 2005 Disclosure</b>				
Fiscal Years	Variable Rate Bond		Interest Rate	
Ending June 30	Principal	Interest	Swap Net	Total
2006	\$ 1,310,000	\$ 127,626	\$ 53,050	\$ 1,490,676
2007	1,400,000	82,889	24,794	1,507,683
2008	1,495,000	35,095	-	1,530,095
2009	185,000	3,583	-	188,583
Total	\$ 4,390,000	\$ 249,194	\$ 77,844	\$ 4,717,037

As rates vary, variable bond interest payments and net swap payments will vary.

**E. Other Notes and Loans**

The General Fund assumed a note payable on behalf of the former National Maritime Center Authority and Holding Corporation of ILA Local 1248. The note will be paid according to the following schedule:

<b>IL.A.</b>			<b>National Maritime Center Authority</b>		
Year Ending June 30,	Principal	Interest	Year Ending June 30,	Principal	Interest
2006	\$ 11,305	\$ 13,459	2006	\$ 196,482	\$ 4,231
2007	11,943	12,821		-	-
2008	12,614	12,150		-	-
2009	13,328	11,436		-	-
2010	14,080	10,684		-	-
2011-2015	83,249	40,571		-	-
2016-2020	103,315	14,315		-	-
<b>Total</b>	<b>\$ 249,834</b>	<b>\$ 115,436</b>	<b>Total</b>	<b>\$ 196,482</b>	<b>\$ 4,231</b>

**F. Advanced Refundings**

In October 2004, the City issued \$19,745,000 in Parking Revenue Refunding Bonds with a true interest cost of 4.088% to refund a 1997 issue with interest rates ranging from 5.125% to 5.550%. The bond proceeds and associated premium were placed in an irrevocable trust to provide resources to purchase U.S. Government, State and Local Series for the purpose of generating resources to meet future debt service and redemption premium payments of \$21,681,859. The advance refunding was undertaken to reduce total debt service by \$1,002,875 and resulted in an economic gain of \$775,465.

In addition, in March 2005 the City issued \$35,035,000 of general obligation refunding bonds with a true interest cost of 3.99% to refund various outstanding issues with interest rates ranging from 4.50% to 5.25%. The bond proceeds and the

**CITY OF NORFOLK, VIRGINIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2005**

associated \$4,972,805 premium were placed in an irrevocable trust to provide resources to purchase U.S. Government State and Local Series securities for the purpose of generating resources for all future debt service and redemption premium payments of \$43,728,291 of general obligation bonds. The advance refunding was undertaken to reduce total debt service payments by \$620,131 and resulted in an economic gain of \$1,151,271.

In June 2005, the City issued \$26,045,000 in Parking Revenue Refunding Bonds with a true interest cost of 4.618% to refund the remaining 1997 bond issue with interest rates ranging from 5.000% to 5.550%. The bond proceeds and associated premium were placed in an irrevocable trust to provide resources to purchase U.S. Government State and Local Series for the purpose of generating resources to meet future debt service and redemption premium payments of \$28,909,925. The advance refunding was undertaken to reduce total debt service by \$2,034,844 and resulted in an economic gain of \$1,761,655.

At June 30, the following defeased bonds from advance refundings are still outstanding:

<b>Defeased In</b>	<b>Original Issue</b>	<b>Amount</b>
2003	1996	\$ 6,000,000
2003	1997	19,775,000
2004	1996	21,000,000
2005	1998	20,630,000
2005	1999	4,680,000
2005	2000	6,300,000
2005	2002	4,050,000
		<u>\$ 82,435,000</u>

**G. Capital Leases**

The City leases certain buildings and certain computer, automotive, solid waste automation and other heavy equipment, which are recorded at a cost of \$13,274,043. Additions to Capital Leases, in the fiscal year ended June 30, 2005 of \$5,453,854 consist of additional borrowing by the General Fund.

The remaining debt service requirements, including interest at rates varying from 4.37% to 7.26%, will be retired by funds from the General Fund on the aforementioned contracts, as follows:



**CITY OF NORFOLK, VIRGINIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2005**

<b>Year Ending June 30,</b>	<b>General Fund</b>	<b>Fleet Fund</b>	<b>Totals</b>
2006	\$ 4,716,683	\$ 12,443	\$ 4,729,126
2007	3,874,533	-	3,874,533
2008	3,031,115	-	3,031,115
2009	1,747,733	-	1,747,733
2010	612,197		612,197
Thereafter	4,121	-	4,121
Total minimum lease payments	13,986,382	12,443	13,998,825
Less interest	(724,597)	(183)	(724,780)
	13,261,785	12,260	13,274,045
Less current portion	(4,374,797)	(12,260)	(4,387,057)
	<u>\$ 8,886,988</u>	<u>\$ -</u>	<u>\$ 8,886,988</u>

#### **H. Landfill Liability**

The City closed its Campostella landfill site on June 30, 1992. State and federal laws require the City to perform certain maintenance and monitoring activities at the site for 30 years after closure. The \$1,506,472 reported as an obligation for landfill closure and post/closure costs, at June 30, reflects the estimated total cost to perform these activities. Actual costs may be higher due to inflation, changes in technology and/or changes in laws.

The Campostella landfill statistically exceeded groundwater protection standards in May, 2002. Until a remedy for corrective action is chosen and approved, \$1,000,000 is included in the liability for groundwater corrective action.

#### **I. Compensated Absences**

A liability for vested vacation and sick leave benefits is recorded as general long-term obligations. These benefits represent future obligations of the following funds and component units:

**CITY OF NORFOLK, VIRGINIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2005**

Primary Government:

Governmental activities

General Fund	\$ 13,951,655
Nonmajor governmental and internal service funds	<u>1,031,009</u>
Total governmental funds	<u><u>\$ 14,982,664</u></u>

Enterprise Funds:

Water utility fund	\$ 805,900
Wastewater utility fund	270,900
Parking fund	<u>227,864</u>
Total enterprise funds	<u><u>\$ 1,304,664</u></u>

Component Unit - School Board	<u><u>\$ 6,887,628</u></u>
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Component Unit - NRHA	<u><u>\$ 1,848,595</u></u>
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Component Unit - CSB	<u><u>\$ 747,958</u></u>
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**J. Debt Limit**

The Commonwealth of Virginia imposes a legal limit of 10 percent of the assessed valuation of taxed real property as a ceiling in the amount of general obligation borrowings, which may be issued by the City without referendum. At June 30, the City's debt limit is \$1,096,081,242 of which \$581,176,179 is available for creation of additional debt. There are no overlapping tax jurisdictions.

**CITY OF NORFOLK, VIRGINIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2005**

**K. Bonds Authorized and Unissued**

A summary of bonds authorized and unissued as of June 30, 2005 follows:

<u>Projects</u>	<u>Total</u>
<b>General obligation bonds authorized and unissued:</b>	
General capital improvement	\$ 3,546,706
Storm Water capital improvement	3,668,840
Maritime Center capital improvement	11,000,000
Wastewater utility development	10,940,000
	<u>29,155,546</u>
<b>Revenue bonds authorized and unissued:</b>	
Parking development	<u>3,500,000</u>
	<u>3,500,000</u>
Total	<u>\$ 32,655,546</u>

**L. Changes in Long-Term Obligations**

A summary of fiscal year 2005 changes in long-term obligations, net of unamortized discounts and premiums, are as follows:

**CITY OF NORFOLK, VIRGINIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2005**

	Primary Government				
	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
<b>GOVERNMENTAL ACTIVITIES</b>					
Bonds and Notes Payable:					
General obligation debt	\$ 411,238,110	\$ 92,895,599	\$ 67,273,418	\$ 436,860,291	\$ 39,032,376
Notes	1,110,427	11,650,236	12,314,347	446,316	207,787
Capital leases	13,718,164	4,701,516	5,157,895	13,261,785	4,374,797
Total Bonds and Notes Payable	<u>\$ 426,066,701</u>	<u>\$ 109,247,351</u>	<u>\$ 84,745,660</u>	<u>\$ 450,568,392</u>	<u>\$ 43,614,960</u>
Other Liabilities:					
Vested Compensated absences	\$ 14,071,584	\$ 11,185,633	\$ 10,545,619	\$ 14,711,598	\$ 10,600,000
Retirement System Contribution	21,086,434	21,142,954	21,086,434	21,142,954	21,142,954
Retiree's life insurance	820,000	-	55,000	765,000	55,000
Workers' compensation claims	15,086,990	655,496	-	15,742,486	3,493,332
Automobile and general liability claims	1,933,790	-	735,141	1,198,649	448,654
Landfill closure and post-closure costs	1,598,505	-	92,033	1,506,472	100,000
Total Other Liabilities	<u>\$ 54,597,303</u>	<u>\$ 32,984,083</u>	<u>\$ 32,514,227</u>	<u>\$ 55,067,159</u>	<u>\$ 35,839,940</u>
Governmental Activities					
Long-Term Liabilities	\$ 480,664,004	\$ 142,231,434	\$ 117,259,887	\$ 505,635,551	\$ 79,454,900
Internal Service Funds					
Capital leases	\$ 57,279	\$ -	\$ 45,019	\$ 12,260	\$ 12,260
Retirement System Contribution	385,038	385,730	385,038	385,730	385,730
Vested Compensated absences	291,409	171,026	191,369	271,066	193,315
Total Internal Service Funds	<u>\$ 733,726</u>	<u>\$ 556,756</u>	<u>\$ 621,426</u>	<u>\$ 669,056</u>	<u>\$ 591,305</u>
Total Governmental	<u>\$ 481,397,730</u>	<u>\$ 142,788,190</u>	<u>\$ 117,881,313</u>	<u>\$ 506,304,607</u>	<u>\$ 80,046,205</u>
<b><u>BUSINESS-TYPE ACTIVITIES:</u></b>					
Bonds and Notes Payable:					
Water	\$ 311,480,936	\$ 22,810,000	\$ 28,076,764	\$ 306,214,172	\$ 10,645,610
Wastewater	46,896,437	18,685,158	9,361,132	56,220,463	3,961,944
Parking facilities	87,487,010	63,645,000	50,054,953	101,077,057	3,260,999
Total Bonds and Notes Payable	<u>\$ 445,864,383</u>	<u>\$ 105,140,158</u>	<u>\$ 87,492,849</u>	<u>\$ 463,511,692</u>	<u>\$ 17,868,553</u>
Vested Compensated Absences	\$ 1,237,049	\$ 927,955	\$ 860,340	\$ 1,304,664	\$ 943,530
Retirement Obligation	2,000,318	2,124,072	2,000,318	2,124,072	2,124,072
Claims and judgements	4,693,687	4,170,200	4,693,687	4,170,200	4,170,200
Business-Type Activities					
Long-Term Liabilities	<u>\$ 453,795,437</u>	<u>\$ 112,362,385</u>	<u>\$ 95,047,194</u>	<u>\$ 471,110,628</u>	<u>\$ 25,106,355</u>

**CITY OF NORFOLK, VIRGINIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2005**

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
<b>COMPONENT UNIT ACTIVITIES:</b>					
<b>Bonds and Notes Payable:</b>					
NRHA	\$ 94,729,857	\$ 138,218	\$ 6,782,671	\$ 88,085,404	\$ 16,524,513
Total Bonds and Notes Payable	\$ 94,729,857	\$ 138,218	\$ 6,782,671	\$ 88,085,404	\$ 16,524,513
Other Liabilities:					
<b>Vested Compensated Absences</b>					
Community Services Board	\$ 662,257	\$ 85,701	\$ -	\$ 747,958	\$ 555,644
NRHA	2,001,878	-	153,283	1,848,595	206,491
Norfolk Public Schools	6,792,291	547,716	452,379	6,887,628	236,483
<b>Pension Liability:</b>					
Community Services Board	729,436	797,825	729,436	797,825	797,825
<b>Workers' Compensation Claims</b>					
Norfolk Public Schools	1,240,590	821,573	768,091	1,294,072	477,820
<b>Claims Liability</b>					
Norfolk Public Schools	325,393	-	225,393	100,000	100,000
Component Unit-type activities					
long-term liabilities	\$ 106,481,702	\$ 2,391,033	\$ 9,111,253	\$ 99,761,482	\$ 18,898,776

## **IX. Other Liabilities**

### **A. Revenue Notes**

The City issued an \$11,650,236 revenue anticipation note on May 10, 2005 to fund and execute an intergovernmental transfer agreement between the City, the Commonwealth of Virginia and the Hospital Authority of Norfolk. The agreement was established so that the note proceeds were repaid on the same day the borrowing occurred.

### **B. Water Fund Liability**

A current liability of \$4,170,200 has been recorded in the Water Utilities Fund to reflect an estimate of excess revenues received from a wholesale customer during fiscal years 2003 and 2004 under a water services contract. Pursuant to the terms of the contract, billings to the customer were based on budgeted Water Utility Fund capital and operating expenditures. The liability reflects the estimated difference between budgeted expenditures and actual cost of service as defined in the contract for that customer. In accordance with the contract, the fiscal year 2003 and 2004 portion of the liability will be reduced in fiscal year 2006 through credits to the customer's billings.

**CITY OF NORFOLK, VIRGINIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2005**

**X. Pension Plans**

The City and its component units participate in three defined benefit pension retirement plans. These include the Employees' Retirement System (ERS) of the City of Norfolk (XI.A); Virginia Retirement System (VRS) a plan administered by the Commonwealth of Virginia for the benefit of Norfolk School Board employees (XI.B); and a VRS plan for the benefit of state employees in constitutional offices. In addition, the School Board has a defined contribution plan.

**A. Employees' Retirement System of the City of Norfolk (System):**

**Plan Description**

The Employees' Retirement System of the City of Norfolk (System) is the administrator of a single-employer noncontributory, defined benefit plan that covers substantially all employees of the City, excluding School Board and Constitutional Officers employees who are covered by the Virginia Retirement System. The System provides retirement benefits as well as death and disability benefits. All benefits vest after 5 years of creditable service. Cost-of-living adjustments ("COLAs") are provided at the discretion of the City Council. The System and its benefits are established by Section 37 of the Code of the City of Norfolk, Virginia as amended. The ERS is included as a Pension Trust Fund in the City's financial statements and also issues a separate publicly available financial report that includes financial statements and required supplementary information for the ERS. That report may be obtained by writing to Employees' Retirement System of the City of Norfolk, City Hall Building, 810 Union Street, Suite 309, Norfolk, VA 23510.

**Funding Policy**

Section 37 of the Code of the City of Norfolk, Virginia, established the authority under which the City's obligation to contribute to the plan is determined. Contribution requirements are actuarially determined at the end of each fiscal year and paid by the City in the ensuing year. The contribution requirement of \$23,652,756 for the year ended June 30, 2005 was based on 9.40 percent of covered payroll for general employees and 24.34 percent of covered payroll for public safety employees. This contribution requirement is recorded in the City's *Statement of Net Assets* as a liability payable to the pension fund and will be made in fiscal year 2006.

**Annual Pension Cost**

For 2005, the System's annual pension cost was equal to the City's required and actual (to be made in 2006) contribution. The required contribution was determined as part of the June 30, 2005 actuarial valuation using the projected unit credit cost method. The amortization method used is level dollar closed. Significant actuarial



**CITY OF NORFOLK, VIRGINIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2005**

assumptions included: (a) 7.5% investment rate of return (net of administrative expenses); (b) projected average salary increases of 5.35%, and (c) ad-hoc cost-of-living adjustment of 1% annually. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three-year period. The remaining amortization period at June 30, 2004 was a weighted average of 14.5 years.

**Three-Year Trend Information**

<b>Fiscal Year Ended</b>	<b>Annual Pension Cost</b>	<b>Percentage of APC Contributed</b>	<b>Net Pension Obligation</b>
June 30, 2005	\$ 23,652,756	100%	\$ -
June 30, 2004	\$ 23,469,744	100%	\$ -
June 30, 2003	\$ 17,046,924	100%	\$ -

**B. School Board – Retirement Plans**

**Plan Description – Virginia Retirement System (VRS)**

The School Board contributes to the Virginia Retirement System (VRS), an agent and cost-sharing multiple-employer defined benefit pension plan administered by the VRS. All full-time, salaried permanent employees of the School Board must participate in the VRS. Benefits vest after five years of service. Employees are eligible for an unreduced retirement benefit at age 65 with 5 years of service and at 50 with 30 years of service payable monthly for life in an amount equal to 1.7% of their average final compensation (AFC) for each year of credited service. Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. In addition, retirees qualify for annual cost-of-living adjustments (COLA) beginning in their second year of retirement. AFC is defined as the highest consecutive 36 months of reported compensation. The VRS also provides death and disability benefits. Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provision to the General Assembly of Virginia.

The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of that report may be downloaded from their website at <http://www.varetire.org/Pdf/2003AnnuRept.pdf> or obtained by writing the System at P. O. Box 2500, Richmond, VA 23218-2500.

**CITY OF NORFOLK, VIRGINIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2005**

**Funding Policy**

Title 51.1 of the Code of Virginia (1950) require plan members, as amended, to contribute 5% of their annual reported compensation to the VRS. The School Board has assumed the 5% member contribution. In addition, the School Board is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees. The School Board's professional and nonprofessional employees' contribution rates for the fiscal year ended June 30, 2004 were 6.03% and 5.00% of annual covered payroll, respectively. The School Board division's contribution rate for the fiscal years ended June 30, 2005, 2004, and 2003 was 11.03% of annual covered payroll and contributions to the VRS for the years ended June 30, 2005, 2004, and 2003 were \$23,809,236, \$17,323,505, and \$16,475,939, respectively, equal to the required contributions for each year.

**Annual Pension Cost**

For 2005, the School Board's annual pension costs of \$22,342,089 and \$1,467,147 for professional and nonprofessional employees, respectively, were equal to the School Board's required and actual contributions. The required contribution was determined as part of the June 30, 2005 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 8% investment rate of return, (b) projected salary increases of 4.25% to 6.1% for Non-LEO and 4.5% to 5.75% for LEO employees per year, and (c) 3% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3%. The actuarial value of the School Board's assets is equal to the modified market value of assets.

This method was determined using techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period.

Trend information for the School Board is as follows:

<u>Ended</u>	<u>Pension Cost</u>	<u>APC Contributed</u>	<u>Obligation</u>
June 30, 2005	\$ 23,809,236	100%	\$ -
June 30, 2004	\$ 17,323,505	100%	\$ -
June 30, 2003	\$ 16,475,939	100%	\$ -

**School Board – Superintendent Defined Contribution Plan**

**CITY OF NORFOLK, VIRGINIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2005**

The School Board adopted a separate retirement plan for the Norfolk Superintendent of Schools in which the Superintendent could elect out of the VRS coverage under Virginia Code Section 51.1-126.6. The School Board will make a contribution based on the Urban Consumer Price Index of 184.0 for fiscal year June 30, 2005.

For any plan year commencing after June 30, 2001 that the participant remains an eligible employee, the School Board will set the amount for the plan contribution on behalf of the participant using the annual Urban Consumer Price Index (CPI). The percentage of change in the CPI from the last full year would be used to compute the contribution for the following year. For the plan year, the School Board, in its discretion may contribute to the plan on behalf of the participant such additional amounts, if any, as the School Board elects to contribute as a discretionary plan contribution. The total annual additions made for the participant for any plan year will not exceed the lesser of \$41,000 or 25% of the participants compensation for the plan year. All contributions will be fully vested and non-forfeitable when such plan contributions are made.

The School Board is the administrator of the plan and Teachers Insurance and Annuity Association is the trustee. Contributions for the year ended June 30, 2005 were fixed contributions of \$5,219 and discretionary of \$5,147.

**C. State Employees – Virginia Retirement System (VRS):**

**Plan Description**

The City of Norfolk contributes to the Virginia Retirement System (VRS), an agent and cost sharing multi-employer defined benefit pension plan administered by the VRS. All full-time, salaried permanent state employees in the City's five constitutional offices must participate in the VRS. These offices include: Commissioner of the Revenue, City Treasurer, Circuit Courts, Commonwealth's Attorney, and Sheriff and Jail. Benefits vest after five years of service. Employees are eligible for an unreduced retirement benefit at age 65 with 5 years of service (age 60 with 5 years of service for participating law enforcement officers and firefighters) and age 50 with 30 years of service for participating employers (age 50 with 25 years of service for participating law enforcement officers and firefighters) payable monthly for life in an amount equal to 1.7 percent of their average final salary (AFS) for each year of credited service. In addition, retirees qualify for annual cost-of-living increases beginning limited to 5% per year in their second year of retirement. AFS is defined as the highest consecutive 36 months of salary. Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. Participating law enforcement officers may receive a monthly benefit supplement if they retire prior to age 65. The VRS also provides death and disability benefits. Title 51.1 of the *Code of Virginia* (1950), as amended, assigns

**CITY OF NORFOLK, VIRGINIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2005**

the authority to establish and amend benefit provisions to the State legislature. The VRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of that report may be obtained by writing to VRS at P.O. Box 2500, Richmond, VA, 23218-2500.

**Funding Policy**

Plan members are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5% of their annual salary to the VRS. The 5% member contribution has been assumed by the City. In addition, the City is required to contribute the remaining amounts necessary to fund its participation in the VRS using an actuarial basis specified by the *Code of Virginia* and approved by the VRS Board of Trustees. The City's contribution rate for the year ended June 30, 2004 was 1.50 % of annual covered payroll. Contributions to the VRS for the year ended June 30, 2005 were \$ 1,771,496 equal to the required contribution.

**Annual Pension Cost**

For 2005, the City's annual pension cost of \$ 1,771,496 was equal to the City's required and actual contribution. The required contribution was determined as part of the June 30, 2005 actuarial valuation using the entry age normal actuarial cost method. The amortization method is level percent open. The actuarial assumptions included: (a) 8% investment rate of return; (b) projected salary increases of 4.25% to 6.10% per year, and (c) 3.0% per year cost-of-living adjustments. Both (a) and (b) include an inflation component of 3%. The actuarial value of the City's assets is equal to the modified market value of assets. This method was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. The remaining amortization period is 11 years.

Trend information for the City VRS plan is as follows:

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2005	\$ 1,771,496	100%	\$ -
June 30, 2004	\$ 1,375,320	100%	\$ -
June 30, 2003	\$ 1,290,526	100%	\$ -

**CITY OF NORFOLK, VIRGINIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2005**

**XI. Deferred Compensation Plan**

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferral may be up to 25 percent of gross income up to a maximum of \$14,000 per year. The deferred compensation plan is not available to employees until termination, retirement, death or unforeseeable emergency.

The laws governing the City's deferred compensation plan have been complied with pursuant to the provisions of IRC Section 457. Accordingly, all assets of the plan are held in trust for the exclusive benefit of the participants and their beneficiaries.

**XII. Other Post-employment Benefits**

The City provides postretirement health care benefits, in accordance with state statutes which require the City to extend access to healthcare benefits to certain retirees. To qualify, retiree's must have 15 years of continuous service or retire on accidental disability. The City pays \$25 per month per participating retiree who agrees to pay the remaining premium. The City's regular health care provider underwrites the retiree's policies. Retirees may not convert the benefit into an in-lieu payment to secure coverage under independent plans.

As of year-end, there were 575 employees who had retired and are participating in the plan. The City finances the plan on a pay as you go basis. For the year ended June 30, 2005, the City paid \$172,500 for these benefits, which was net of \$2,320,260 in retiree contributions.

**CITY OF NORFOLK, VIRGINIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2005**

**XIII. Interfund Receivable and Payable Balances**

The composition of interfund activity as of June 30, 2005, is as follows:  
Due to/from other funds:

<b><u>Receivable Fund</u></b>	<b><u>Payable Fund</u></b>	<b><u>Amount</u></b>
General	Payroll Agency	\$ 173,370
	Capital Projects	159
	Water Utility	1,479,587
	Wastewater	49,379
	Parking Fund	116,455
	Cemetery Fund	171,017
	Nauticus	343
	Grants	129,364
	Stormwater	309
	Towing	7,330
	Fleet Management	3
	Total General	<u>\$ 2,127,316</u>
Capital Projects	General Fund	\$ 47,742
	Public Amenities	3,900,000
	Total Capital Projects	<u>\$ 3,947,742</u>
Nonmajor Governmental Funds	General Fund	\$ 1,092,986
	Parking Fund	99,227
	Towing	9,192
	Total Nonmajor governmental	<u>\$ 1,201,405</u>
Enterprise Funds	General Fund	\$ 1,949,978
	Capital Projects	1,038
	Wastewater	137,520
	Total Enterprise	<u>\$ 2,088,536</u>
	<b>Grand Total</b>	<u><u>\$ 9,364,999</u></u>



**CITY OF NORFOLK, VIRGINIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2005**

**XIV. Interfund Transfers**

The following interfund transfers occurred during fiscal year 2005:

<u>Fund</u>	<u>In</u>	<u>Out</u>
General	\$ 11,103,036	\$ 63,365,438
Debt Service	53,373,239	-
Capital projects fund	7,406,967	680,355
Nonmajor governmental funds	10,471,017	8,308,466
Enterprise:		
Water Utility	-	8,500,000
Wastewater Utility	-	1,500,000
	<u>\$ 82,354,259</u>	<u>\$ 82,354,259</u>

The purpose of the transfer balances are as follows:

General fund transfers in of \$11,103,036 include \$680,355 from the capital projects fund, \$275,000 from the tax incentive fund, \$145,559 from the grants fund, and \$2,122 from the trust and agency funds for interest earned on cash balances; \$1,500,000 from the wastewater fund and \$8,500,000 from the water utility fund represents a return on investment back to the general fund.

The general fund transfers out of \$63,365,438 represents a transfer of \$51,759,421 to the debt service fund to fund general obligation debt and capital lease payments; \$1,135,000 to the capital projects fund as a contribution for annual capital improvement plan budget; \$8,476,791 to the grants fund in support of grant projects; \$852,592 to the Nauticus fund and \$280,216 to the cemeteries fund and \$861,418 to EO/911 fund as contributions from the general fund.

Debt service transfers in also include \$1,613,818 from storm water fund to fund the current year's debt service payments.

The storm water special revenue fund transferred \$1,613,818 to the debt service fund to cover its debt service cost and \$721,967 to the capital projects fund in support of related capital projects.

The public amenities special revenue type fund transferred \$5,550,000 to the capital projects fund in support of the funds capital related projects.

**CITY OF NORFOLK, VIRGINIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2005**

The water and wastewater funds transferred \$8,500,000 and \$1,500,000 to the general fund as a return on investment, respectively.

The General Fund also transferred \$91,864,910 to the School Board component unit, \$244,569 to the Norfolk Redevelopment and Housing Authority component unit and \$2,262,800 to the Community Service Board component unit during the fiscal year. These amounts are reported as expenses in the primary government's financial statements, and revenues in the component unit financial statements.

**XV. Recovered Costs**

Recovered costs in the General Fund consist of the following:

Public Health Center	\$	1,119,222
Information Systems Recoveries		1,842,915
Debt Service Recoveries		415,067
Administrative Costs Recoveries		3,000,196
From Enterprise Funds		
HRT Subsidy		4,452,000
Other		<u>3,358,452</u>
Total	\$	<u>14,187,852</u>

**XVI. Other Liabilities**

Other liabilities, as presented in the *Fund Financial Statements*, consist of the following:

**CITY OF NORFOLK, VIRGINIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2005**

General Fund - Miscellaneous	\$ 700,870
General Fund - Accrued expenditures	2,228,641
Special Revenue Fund - Miscellaneous	97,970
	<u>\$ 3,027,481</u>

**Enterprise Funds:**

Water Utility Fund - Due to other governments	\$ 4,170,200
Water Utility Fund - Miscellaneous	242,997
Wastewater Utility Fund - Miscellaneous	554,720
	<u>\$ 4,967,917</u>

**Fiduciary Funds:**

Other Agency Funds	\$ 5,613,183
Commonwealth of Virginia	31,917
	<u>\$ 5,645,100</u>

**XVII. Supplemental Appropriations**

The following supplemental appropriations were made to the general fund operating budgets during the fiscal year:

**General Fund:**

Approved FY 2004-2005 budget	\$ 700,617,600
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**Supplemental appropriations from additional revenue:**

Reimbursement from the Commonwealth of Virginia for street maintenance projects	223,981
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**Supplemental appropriations from general fund fund balance:**

Additional funds appropriated to cover costs associated with the renovation of the Attucks Theater	202,000
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Total supplemental appropriations	<u>425,981</u>
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Final budget	<u>\$ 701,043,581</u>
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**XVIII. Deferred Revenue**

Deferred revenue, as represented in the Fund Financial Statements at June 30, totals \$19,925,648 and is comprised of the following:

**CITY OF NORFOLK, VIRGINIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2005**

**A. Deferred grant funding**

In the Grants Fund, deferred revenue represents monies accepted from a grantor using an advancement method for payments. The amount is reduced and revenue is recorded when expenditures are incurred in accordance with the grantors' requirements. If expenditures are not incurred, the funds will revert back to the grantors. In the Community Development Fund, the deferred revenue represents deferred payment rehabilitation loans of \$850,633. Deferred grant funding reported in the combining financial statements for nonmajor governmental funds at June 30, comprise the following:

Community development	\$ 850,633
Storm Water - deferred billings	<u>240,031</u>
Total primary government - Special Revenue Funds	<u>\$ 1,090,664</u>

**B. Deferred property tax revenue**

Deferred revenue in the General Fund, representing uncollected tax billings not available for funding of current expenditures as of June 30, 2005 is \$18,623,656.

**C. Notes receivable**

Deferred revenue in the General Fund, representing noncurrent notes receivable not available for funding current expenditures at June 30, 2005, totals \$111,982.

**D. Other**

Certain items in the General Fund, representing prepaid and/or contributed revenue that is not available for funding current expenditures at June 30, 2005, total \$99,346.

**CITY OF NORFOLK, VIRGINIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2005**

**XIX. Commitments and Contingencies**

**A. Capital Projects**

Commitments for completion of capital projects in the Business-Type Activities, authorized at June 30, are as follows:

Water utility development projects	\$ 9,801,079
Wastewater utility development projects	12,146,653
Parking facilities development projects	<u>796,317</u>
	<u>\$ 22,744,049</u>

**B. Contingent liabilities**

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the government expects such amounts, if any, to be immaterial.

**C. Litigation**

The City is a defendant in various lawsuits. Although the outcome of the lawsuits is not presently determinable, in the opinion of the City's counsel the resolution of these matters will not have a material adverse effect on the financial condition of the City.

**CITY OF NORFOLK, VIRGINIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2005**

**XX. Surety Bonds and Insurance**

<u>Surety</u>	<u>Official</u>	<u>Amount</u>
Commonwealth of Virginia	Sharon McDonald, Commissioner of the Revenue	\$ 3,000
	Thomas W. Moss, Jr., City Treasurer	1,500,000
	Robert J. McCabe, Sheriff	30,000
	George E. Schaefer., Clerk of the Circuit Court	<u>2,235,000</u>
	Total Commonwealth of Virginia	<u>\$3,768,000</u>
Commonwealth of Virginia	All employees of the City Treasurer, Sheriff , Commissioner of the Revenue, Commonwealth Attorney and Clerk of Court	
	Performance of Duty Bond	\$ 500,000
City of Norfolk		
Travelers Insurance Co.	All City employees	\$ 500,000

**XXI. Self-insurance and Purchased Programs**

The City is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and, natural disasters. On July 11, 1978, the City established a protected self-insurance program fund, pursuant to an ordinance adopted by City Council, to cover itself from these risks of losses. The program provides for the payment of claims liabilities, property losses, and related expenses covered by a combination of purchased insurance policies and self-insurance plans. The total of insurance premiums, self-insurance claims, and related expense payments made during fiscal year 2005 was \$7,433,729.

The City currently reports all these activities as part of the risk management function in the general government section of the General Fund. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. At June 30, these liabilities were \$16,941,135, of which \$3,941,986 represents the current portion anticipated to be paid within a year. Estimated liabilities, as determined by an actuary, are reported at their present value, using the expected future investment yield assumption of five percent.



**CITY OF NORFOLK, VIRGINIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2005**

Changes in the City's claims liability amount in the fiscal years 2003 through 2005 is as follows:

	<b>Unpaid Claims Beginning Fiscal-year</b>	<b>Incurred Claims and Changes in Estimates</b>	<b>Claims Payments</b>	<b>Unpaid Claims End of Fiscal-year</b>
2003	\$16,581,654	\$ 6,269,630	\$(4,774,287)	\$18,189,936
2004	18,189,936	6,188,209	(7,357,365)	17,020,780
2005	17,020,780	5,464,863	(5,544,508)	16,941,135

The City in its General Fund has designated \$4,728,960 of fund balance to provide for risks of loss and claims payments that may not be fully covered by purchased insurance or annual budget appropriations. There have not been any significant reductions in insurance coverage, and settled claims have not exceeded coverage in any of the past three fiscal years.

The School Board also participates in the program and its projected present value assuming a discount rate of five percent liability at June 30, 2005 was \$1,394,072. It also provides payments for its risks of loss through a combination of purchased insurance policies and self-insurance plans. These losses are funded through the Public Schools operating budgets and/or the City's fund balance designation.

**XXII. Jointly Governed Organizations**

**A. Hampton Roads Regional Jail Authority (HRRJA)**

HRRJA is a regional organization which includes the cities of Hampton, Newport News, Norfolk and Portsmouth, created for the purpose of providing, operating and maintaining a regional jail facility for the correctional overflow from each community. HRRJA is a primary government, with no component units, that is a body politic and corporate created pursuant to Article 3.1, Chapter 3, Title 53.1 of the Code of Virginia, as amended, and is governed by a twelve member Board of Directors, consisting of three representatives appointed by each of the member cities. The budgeting and financing of HRRJA are subject to the approval of the Board of Directors, with each individual having a single vote. HRRJA is responsible for its own financial matters, maintains its own books of account and is audited annually by independent accountants that it engages.

The participating governments do not have an equity interest in the Authority, and accordingly, no equity interest has been reflected in the City's financial statements at June 30, 2004. Complete financial statements of HRRJA can be obtained from HRRJA.

**CITY OF NORFOLK, VIRGINIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2005**

**B. Hampton Roads Planning District Commission (the Commission)**

A regional planning agency authorized by the Virginia Area Development Act of 1968, was created by the merger of the Southeastern Virginia Planning District Commission and the Peninsula Planning District Commission on July 1, 1990. The Commission performs various planning services for the Cities of Chesapeake, Franklin, Hampton, Newport News, Norfolk, Portsmouth, Poquoson, Suffolk, Williamsburg and Virginia Beach, and the Counties of Gloucester, Isle of Wight, James City, Southampton and York. Revenue of the Commission is received primarily from local governmental (member) contributions and various state and federal grant programs.

The participating governments do not have an equity interest in the Commission, and accordingly, no equity interest has been reflected in the City's financial statements at June 30, 2005. Complete financial statements of the Commission can be obtained from the Commission.

**C. Tidewater Transportation District Commission (TTDC)**

A political subdivision of the Commonwealth of Virginia formed on May 9, 1973, as a joint exercise of governmental power in accordance with provisions of Chapter 32 of Title 15.1 of the Code of Virginia. TTDC provides public transportation facilities and services within the Cities of Norfolk, Portsmouth, Virginia Beach, Chesapeake and Suffolk, Virginia. Oversight responsibility is exercised by all of the participating localities through their designated representatives. Responsibility for the day-to-day operations of TTDC rests with professional management.

The participating governments do not have an equity interest in TTDC, and accordingly, no equity interest has been reflected in the City's financial statements at June 30, 2005. Complete financial statements of TTDC can be obtained from TTDC.

**XXIII. Joint Venture**

**Southeastern Public Service Authority (SPSA)**

SPSA is a joint venture of the Cities of Chesapeake, Franklin, Norfolk, Portsmouth, Suffolk and Virginia Beach and the counties of Isle of Wight and Southampton, created for the purpose of providing, operating and maintaining a regional system for the collection, transfer, processing and disposal of solid waste refuse. SPSA is a primary government, with no component units, that is a public body politic and corporate created pursuant to the Virginia Water and Sewer Authorities Act, and is governed by

**CITY OF NORFOLK, VIRGINIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2005**

an eight-member Board of Directors consisting of a representative appointed by each of the member cities and counties. Budgeting and financing of SPSA is subject to the approval of the Board of Directors with each representative having a single vote. The Authority is responsible for its own financial matters, maintains its own books of account and is audited annually by independent accountants that it engages.

In fiscal years 1990 and 1994, the City guaranteed \$12,514,500 (54 percent of \$23,175,000) in refunding bonds, and interest thereon, issued by the SPSA. Under the guaranty agreements, the City has agreed to make payments to the trustees for deposit in reserve accounts, if necessary, to maintain in such accounts the sums of the amounts of interest due on the next succeeding interest payment dates for the bonds and the amounts required to pay principal of all the bonds maturing on the next July 1. The Guaranteed Subordinated Revenue Refunding Bonds, Series 1993 (refunding bonds) in the amount of \$10,485,000 refunded SPSA's \$23,175,000 Guaranteed Subordinated Revenue Refunding Bonds, Series 1989. At June 30, 2005 the outstanding principal balance of the guaranteed subordinate bonds was \$2,385,000. The City's allocable portion remains at 54 percent or \$1,287,900, with the remaining balance being due from neighboring localities as follows: Chesapeake - 23 percent; Franklin - 2 percent; and Portsmouth - 21 percent. On July 1, 2004, SPSA made the final payment of \$2,385,000 on the aforementioned debt, eliminating Norfolk's contingent liability. The participating governments do not have an equity interest in the joint venture and, accordingly, no equity interest has been reflected in the City's financial statements at June 30, 2005. Complete financial statements of SPSA can be obtained from SPSA.

**XXIV. Related Organizations**

**A. Norfolk Airport Authority**

Norfolk Airport Authority, a political subdivision of the Commonwealth, was created to operate an airport and to promote industrial growth and consists of both an Airport Fund and an Investment Fund. The Airport Fund was established by the Authority to account for the operations of the Norfolk International Airport (the Airport). Revenue generated by airport operations is used to meet all operating expenses and to provide for payment of all principal and interest on debt of the Authority related to the Airport. The Investment Fund was established by the Authority to provide for certain airport capital improvements. The Authority finances individual capital projects by issuing bonds or obtaining loans and intergovernmental grants in its own name and concurrently entering into leases which provide for payment of all principal and interest on the related obligations as they become due. Revenue includes rental income on non-airport property owned by the Authority and interest on investments. The Authority's Commissioners are appointed by City Council but the Commission designates its own management and has oversight responsibility for its own fiscal matters. The

**CITY OF NORFOLK, VIRGINIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2005**

City does not provide funds for the operations of the Authority and, pursuant to Section 144(q) of the City Charter, the Authority is required to submit its annual budget to the City Council for the purposes of information only. The City of Norfolk has the option to reacquire, without consideration, title to all property and equipment after payment by the Authority of all obligations relating to the improvements at the Airport.

**B. The Economic Development Authority of the City of Norfolk (The Authority)**

The Economic Development Authority, a political subdivision of the Commonwealth of Virginia, was created by ordinance of the City of Norfolk in 1972, pursuant to the provisions of the Economic Development and Revenue Bond Act of the Commonwealth of Virginia (Title 15.1, Chapter 33, Section 15.1-1373, et seq., of the Code of Virginia (1950), as amended. It is authorized to acquire, own, lease and dispose of properties to the end that such activities may promote industry and develop trade by inducing manufacturing, industrial and commercial enterprises to locate or remain in the City and further the use of the Commonwealth's agricultural and natural resources. The Authority is empowered by the Commonwealth to authorize industrial development bonds and confer tax-exempt status on interest paid to financial institutions. The Authority acts as an intermediary between financial institutions and borrowers; it has no responsibility for borrowers' debt. Although Commissioners are appointed by City Council, the Commission designates its own management, which is self-sustaining, maintains its own books of account, engages its own independent accountant, and receives its revenue from administrative fees charged to borrowers.

**C. The Chrysler Museum, Inc. (the Museum)**

The Chrysler Museum, a Virginia non-stock, not-for-profit organization, was formed on January 1, 1980 by incorporating the Chrysler Museum at Norfolk. The main purpose of the Museum is the advancement, encouragement and promotion of the study and appreciation of art. The Museum designates its own management, which is self-sustaining, maintains its own books of account, engages its own independent accountant, and receives its revenue from administrative fees charged to visitors and from other independent grants.

**D. The Hospital Authority of Norfolk (HAN)**

The Hospital Authority of Norfolk, which has a nine-member Board of Commissioners appointed by City Council, is a tax-exempt, not-for-profit political subdivision of the Commonwealth created pursuant to an Agreement of Transfer dated July 1, 1998. HAN operates Lake Taylor Hospital as a long-term care

**CITY OF NORFOLK, VIRGINIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2005**

facility licensed by the Virginia State health Department to provide a continuum of patient care ranging from sub-acute hospital services to skilled nursing care.

**XXV. Adjustments to Beginning Capital Assets and Net Assts**

The City's beginning capital and net assets in the government-wide statements have been restated to adjust historical cost and accumulated depreciation for infrastructure assets as a result of implementing Governmental Accounting Standards Board (GASB) Statement No. 34, "Basic Financial Statements – and Management Discussion and Analysis – For State and Local Governments." The beginning capital and net assets have also been adjusted to correct an error associated with capitalizing certain public building improvements for which the City contributed to but does not have title to the assets. As a result, net and capital assets were reduced by \$5,689,302.

The also discovered an error in the Grants Special Revenue Fund and Expendable Trust Fund related to a transaction posting. As a result, beginning net assets of governmental activities and nonmajor governmental funds were reduced by \$3,178,868.

The School Board discovered an error in calculating prior year depreciation expenses resulting in an understatement of capital and net assets. As a result, beginning net assets were restated by \$4.6 million.

The School Board also determined that t he acquisition of approximately 150 vehicles was not properly capitalized in the 2004 fiscal year. As a result net and capital assets were restated by \$2.4 million.

Adjustments to the City's and Board's net assets are as follows:

	Primary Government	School Board
	Governmental Activities	Governmental Activities
Net Assets, June 30, 2004	\$ 554,737,675	\$ 54,838,845
Adjustments	(8,868,170)	7,022,999
Net Assets, June 30, 2004, As Restated	\$ 545,869,505	\$ 61,861,844

**XXVI. Special Items**

**A. Disaster Related Aid**

In fiscal year 2004, the City recorded revenues of \$22.2 million in its General Fund from Federal and State agencies for disaster related aid associated with

**CITY OF NORFOLK, VIRGINIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2005**

Hurricane Isabel. At June 30, 2004, the City carried a receivable balance of \$6.3 million. The Federal Emergency Management Agency (FEMA) had indicated that the City may only receive partial funding relative to some of the projects submitted for debris removal and anticipated that approximately \$3 million of the receivable balance was uncertain. In fiscal year 2005, the City wrote off the uncollected balance of \$3.1 million.

**B. Land Sales**

The City established a special revenue fund entitled the Land Acquisition Fund, for the purpose of acquiring and disposing of property for urban renewal and redevelopment purposes. The following land sales occurred in the 2005 fiscal year:

Land Acquisition Fund:

Norfolk Community Hospital Building	\$ 1,969,050
St. Paul's Place Property	689,000
Norfolk Public Health Center	<u>2,732,764</u>
Total	<u>\$ 5,390,814</u>

**REQUIRED SUPPLEMENTARY  
INFORMATION**  
*(OTHER THAN MANAGEMENT'S  
DISCUSSION & ANALYSIS)*





**CITY OF NORFOLK, VA**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**Schedule of Funding Progress for Retirement Plans - (unaudited)**

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded (Overfunded) Actuarial Accrued Liability (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a percentage of covered payroll</u>
<b>CITY - EMPLOYEES RETIREMENT SYSTEM</b>						
June 30, 2003 \$	760,500,000	\$ 813,200,000	\$ 52,700,000	93.5%	\$ 152,100,000	34.6%
June 30, 2004 \$	761,500,000	\$ 845,700,000	\$ 84,200,000	90.0%	\$ 157,700,000	53.4%
June 30, 2005 \$	854,100,000	\$ 883,900,000	\$ 29,800,000	96.6%	\$ 160,020,000	18.6%
<b>CITY - VRS EMPLOYEES</b>						
June 30, 2003 \$	27,119,818	\$ 21,029,342	\$ (6,090,476)	129.0%	\$ 19,559,156	-31.1%
June 30, 2004 \$	28,802,620	\$ 23,822,673	\$ (4,979,947)	120.9%	\$ 20,546,354	-24.2%
June 30, 2005 \$	30,349,720	\$ 26,612,472	\$ (3,737,248)	114.0%	\$ 21,369,062	-17.5%
<b>SCHOOL BOARD COMPONENT UNIT - VRS NON-PROFESSIONAL EMPLOYEES</b>						
June 30, 2003 \$	54,155,701	\$ 49,029,563	\$ (5,126,138)	110.5%	\$ 12,591,462	-40.7%
June 30, 2004 \$	53,170,951	\$ 51,919,382	\$ (1,251,569)	102.4%	\$ 13,052,011	-9.6%
June 30, 2005 \$	52,765,749	\$ 54,345,074	\$ 1,579,325	97.1%	\$ 13,647,900	11.6%

**CITY OF NORFOLK, VIRGINIA**  
**Schedule of Revenue, Budget and Actual**  
**General Fund**  
**For the Year Ended June 30, 2005**

Exhibit E-1

	Original Budget	Final Budget	Budget Basis Actual	Positive (negative) Variance
General Property Taxes	\$ 189,760,400	\$ 189,760,400	\$ 192,894,904	\$ 3,134,504
Other Local Taxes	136,606,700	136,606,700	141,510,674	4,903,974
Permits, Privilege Fees, Licenses	2,880,500	2,880,500	3,541,516	661,016
Fines and Forfeitures	1,555,700	1,555,700	1,763,078	207,378
Revenue from Use of Money and Property	6,003,300	6,003,300	8,200,236	2,196,936
Charges for Services	16,891,400	16,856,400	18,857,789	2,001,389
Miscellaneous Revenue	4,301,800	4,301,800	2,017,896	(2,283,904)
Recovered Costs	16,594,000	16,594,000	14,236,898	(2,357,102)
Non-Categorical Aid - Virginia	33,264,400	33,264,400	33,040,603	(223,797)
Shared Expense - Virginia	18,303,300	18,303,300	18,529,229	225,929
Categorical Aid - Virginia	245,209,400	245,468,381	240,077,345	(5,391,036)
Categorical Aid - Federal	8,422,700	8,422,700	9,097,218	674,518
Interfund Transfers	20,824,000	21,026,000	19,716,047	(1,309,953)
Total Revenue Budget	<u>\$ 700,617,600</u>	<u>\$ 701,043,581</u>	<u>\$ 703,483,433</u>	<u>\$ 2,439,852</u>

**CITY OF NORFOLK, VIRGINIA**  
**Schedule of Expenditures, Budget and Actual**  
**General Fund**  
**For the Year Ended June 30, 2005**

Exhibit E-2

	Original Budget	Final Budget	Budget Basis Actual	Positive (negative) Variance
Legislative	\$ 3,480,600	\$ 3,490,600	\$ 3,504,463	\$ (13,863)
Executive	1,436,500	1,436,500	1,446,062	(9,562)
Department of Law	3,223,400	3,273,400	3,396,161	(122,761)
Finance	7,776,600	7,860,885	7,870,317	(9,432)
Department of Human Resources	3,228,700	3,272,557	3,181,816	90,741
Courts, Sheriff and Detention	37,613,900	37,701,969	37,565,519	136,450
Department of Public Health	5,521,500	5,521,500	5,606,872	(85,372)
Department of Human Services	63,363,600	63,363,600	60,531,059	2,832,541
Department of Public Works	33,346,200	33,570,181	33,640,744	(70,563)
Neighborhood & Leisure Services	15,887,200	15,937,200	15,107,791	829,409
Education	283,351,800	283,351,800	273,296,510	10,055,290
Norfolk Public Libraries	6,545,900	6,545,900	6,513,446	32,454
Elections	547,600	547,600	610,749	(63,149)
Department of Planning	4,632,500	4,750,000	4,714,470	35,530
Department of Civic Facilities	5,733,500	6,235,500	6,015,686	219,814
Departmental Support	17,411,000	13,901,555	12,391,826	1,509,729
Outside Agencies	24,811,900	24,902,091	23,548,365	1,353,726
Department of Police	54,458,100	55,183,100	55,069,088	114,012
Department of Fire and Rescue Services	32,900,200	33,713,200	33,919,407	(206,207)
Public Safety Support	435,300	628,317	575,261	53,056
Debt Service	63,389,900	60,316,501	59,705,827	610,674
Department of Facility and Enterprise Management	14,097,800	15,213,800	15,217,667	(3,867)
Budget and Management	644,100	644,099	613,867	30,232
Economic Development	1,933,900	1,933,900	1,921,739	12,161
Intergovernmental Programs	534,100	534,100	512,661	21,439
Communications and Public Relations	1,434,600	1,434,600	1,414,625	19,975
Department of Information Technology	9,272,600	12,174,526	11,715,803	458,723
Office of Grants Management	182,300	182,300	138,045	44,255
Virginia Zoological Park	3,230,500	3,230,500	3,220,669	9,831
Office of Homelessness	191,800	191,800	60,045	131,755
Total General Fund Expenditure Budget	<u>\$ 700,617,600</u>	<u>\$ 701,043,581</u>	<u>\$ 683,026,560</u>	<u>\$ 18,017,021</u>



**CITY OF NORFOLK, VIRGINIA**  
**Notes to Required Supplementary Information**  
**Reconciliation of (non-GAAP) Budgetary Basis to GAAP**  
**June 30, 2005**

	General Fund
<u>Sources/inflows of resources:</u>	
Actual amounts (budgetary basis) "available for appropriation" from the Budget to Actual Comparison Statement	\$ 703,483,433
Differences--budget to GAAP:	
The effects of accounting for School Revenue as a Component Unit	(191,504,963)
The effects of accounting for revenue on a modified accrual basis	(9,376,000)
General fund transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes	(11,103,036)
The effects of accounting for the write off of uncollectible funds on the FEMA Grant which is regarded as a special item, rather than revenue, for financial reporting purposes	3,113,624
Total revenues as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	<u>\$ 494,613,058</u>
<u>Uses/outflows of resources:</u>	
Actual amounts (budgetary basis) "Total charges to appropriations" from the Budget to Actual Comparison Statement	\$ 683,026,560
Differences--budget to GAAP:	
The effects of accounting for School Revenue as a Component Unit	(181,431,600)
The effects of accounting for expenditures on a modified accrual basis	4,701,516
Encumbrances for supplies and equipment ordered but not received is reported in the year the order is placed for budgetary purposes, but in the year the supplies are received for financial reporting purposes	(5,434,734)
The Traffic Operations and Tax Incentive funds are governmental in nature of operations and thus are merged into the governmental fund balances on a GAAP basis, on a budgetary basis these funds are separate from the general fund	54,291
General fund transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	(63,365,438)
Total expenditures as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances--Governmental Funds	<u>\$ 437,550,595</u>

There were no material violations of the annual appropriated budget for the General Fund for the fiscal year ended June 30, 2005. In addition, there were no excesses of budgetary for the period for the General Fund.

# **OTHER SUPPLEMENTARY INFORMATION**

## **COMBINING FINANCIAL STATEMENTS**

**~ Nonmajor Governmental Funds ~  
~ Agency Funds ~  
~ Internal Service Funds ~**

## **OTHER SCHEDULES**

- ~ Schedule of Expenditures of Federal Awards ~**
- ~ Note to Schedule of Expenditures of Federal Awards ~**
- ~ Schedule of Revenues and Expenditures – Budget and  
Actual – Special Revenue Funds ~**
- ~ Schedule of Revenues and Expenditures – Budget and  
Actual – Internal Service Funds ~**
- ~ Schedule of Revenues and Expenditures – Budget and  
Actual – Capital Projects Fund ~**



# Nonmajor Governmental Funds

## Special Revenue Funds

**The Special Revenue funds are used to account for specific revenues that are legally restricted to expenditure for particular purposes. The individual special revenue funds are:**

Storm Water Fund: To account for the operation of the environmental storm water management system, including maintenance of storm water drainage facilities. The costs of providing services on a continuing basis are partially financed or recovered through user charges to Norfolk residents and commercial and industrial customers.

Grants Fund: To account for the receipt and disbursement of revenue from such sources as federal and state agencies, adjacent municipalities, and City matching funds and to finance special programs that may have reporting periods that do not correspond with the City's fiscal year.

Community Development Fund: To account for all entitlement funds received under Title I of the Housing and Community Development Act of 1974, commonly known as the Community Development Block Grant Program.

National Maritime Center (Nauticus) Fund: To account for the operation of the National Maritime Center and Battleship Wisconsin tours.

Expendable Trust and Agency Fund: To account for monies held by the City of Norfolk as a trustee. The resources of this fund are received and subsequently expended in such functions as public works, parks and recreation and libraries.

Cemeteries Fund: To account for the operation of the City of Norfolk cemeteries.

Emergency Operations Center/911 Fund: To account for the operation of the City of Norfolk emergency operations center/911.

Golf Fund: To account for the operation of the City of Norfolk's golf courses.

Land Acquisition Fund: To provide resources to assemble land that is in the public interest.

Public Amenities Fund: To promote cultural and entertainment activity in the downtown area.

Towing & Recovery Operations Fund: To improve neighborhood livability by providing reliable dispatching of towing services, storage of vehicles and recovery or disposal of vehicles.



## **Nonmajor Governmental Funds (Con't)**

Tax Increment Financing Fund: To account for debt service requirements for the Section 108 Loan and property tax collections within the Broad Creek Renaissance Tax Increment Financing District.

### **Permanent Fund**

The Permanent funds are used to report resources that are legally restricted to the extent that only earning, not principal, may be used for purposes that support the reporting government's programs. The City's permanent fund (non-expendable trust) is used to account for the perpetual care and endowed care at certain City-owned cemeteries.





**Combining Balance Sheet - Nonmajor Governmental Funds**  
**June 30, 2005**

	Special Revenue Funds						
	Storm Water	Towing	Grants	Community Development	Nauticus	Cemetery	Golf Fund
<b>ASSETS</b>							
Cash and cash equivalents	\$ 135,347	\$ 429,387	\$ 12,989,336	\$ 125,471	\$ 91,322	\$ 9,017	\$ 632,480
Investments	-	-	1,323,000	-	-	-	-
Receivables, net	865,256	12,665	1,807,744	878,694	175,785	164,961	-
Accrued Investment Income	-	-	-	-	-	-	-
Deposits contractors	-	-	3,084	-	-	-	-
Due from other funds	9,192	-	726,244	-	2,592	45,377	-
Due from agency fund	-	-	-	-	-	-	-
Receivable from other governments	-	-	-	-	-	-	-
Total assets	<u>\$ 1,009,795</u>	<u>\$ 442,052</u>	<u>\$ 16,849,408</u>	<u>\$ 1,004,165</u>	<u>\$ 269,699</u>	<u>\$ 219,355</u>	<u>\$ 632,480</u>
<b>LIABILITIES</b>							
Vouchers/Accounts payable	\$ 29,750	\$ 15,403	\$ 1,261,176	\$ 53,069	\$ 53,475	\$ 48,338	\$ 1,353
Contract retainage	-	-	309,251	-	-	-	-
Accrued payroll	60,423	7,350	64,393	-	37,372	-	-
Due to other funds	309	16,522	129,364	-	343	171,017	-
Due to other governments	-	-	2,396,659	100,463	-	-	-
Deferred revenue	240,031	-	-	850,633	-	-	-
Other liabilities	-	74,970	23,000	-	-	-	-
Total liabilities	<u>330,513</u>	<u>114,245</u>	<u>4,183,843</u>	<u>1,004,165</u>	<u>91,190</u>	<u>219,355</u>	<u>1,353</u>
<b>FUND BALANCES</b>							
Reserved for:							
Encumbrances	252,003	106,924	17,304,593	2,676,546	178,509	-	1,485
Perpetual care	-	-	-	-	-	-	-
Capital projects	100,065	-	-	-	-	-	-
Unreserved:							
Designated	-	-	-	-	-	-	-
Undesignated	327,214	220,883	(4,639,028)	(2,676,546)	-	-	629,642
Total fund balances	<u>679,282</u>	<u>327,807</u>	<u>12,665,565</u>	<u>-</u>	<u>178,509</u>	<u>-</u>	<u>631,127</u>
Total liabilities and fund balances	<u>\$ 1,009,795</u>	<u>\$ 442,052</u>	<u>\$ 16,849,408</u>	<u>\$ 1,004,165</u>	<u>\$ 269,699</u>	<u>\$ 219,355</u>	<u>\$ 632,480</u>

Special Revenue Funds						Permanent Funds	Nonmajor Governmental Funds
Public Amenities	Land Acquisition	EOC/ 911	Tax Increment	Expendable Trust	Total Special Revenue	Non- Expendable Trust	
\$ 7,218,276	\$ 5,431,780	\$ 760,242	\$ 580	\$ 56,577	\$ 27,879,815	\$ 5,881,901	\$ 33,761,716
-	-	-	-	-	1,323,000	-	1,323,000
488,728	-	184,898	-	387	4,579,118	96,416	4,675,534
-	159,078	-	-	-	159,078	1,263	160,341
-	-	-	-	-	3,084	-	3,084
-	-	418,000	-	-	1,201,405	-	1,201,405
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>\$ 7,707,004</u>	<u>\$ 5,590,858</u>	<u>\$ 1,363,140</u>	<u>\$ 580</u>	<u>\$ 56,964</u>	<u>\$ 35,145,500</u>	<u>\$ 5,979,580</u>	<u>\$ 41,125,080</u>
\$ 6,184	\$ -	\$ 22,144	\$ -	\$ 6,032	\$ 1,496,924	\$ -	\$ 1,496,924
-	-	-	-	-	309,251	-	309,251
-	-	85,491	-	-	255,029	-	255,029
3,900,000	-	-	-	7,370	4,224,925	-	4,224,925
-	-	-	-	-	2,497,122	-	2,497,122
-	-	-	-	-	1,090,664	-	1,090,664
-	-	-	-	-	97,970	-	97,970
<u>3,906,184</u>	<u>-</u>	<u>107,635</u>	<u>-</u>	<u>13,402</u>	<u>9,971,885</u>	<u>-</u>	<u>9,971,885</u>
274,728	-	287,103	-	-	21,081,896	-	21,081,896
-	-	-	-	-	-	5,979,580	5,979,580
-	-	-	-	-	100,065	-	100,065
-	-	-	-	43,562	43,562	-	43,562
<u>3,526,092</u>	<u>5,590,858</u>	<u>968,397</u>	<u>580</u>	<u>-</u>	<u>3,948,092</u>	<u>-</u>	<u>3,948,092</u>
<u>3,800,820</u>	<u>5,590,858</u>	<u>1,255,505</u>	<u>580</u>	<u>43,562</u>	<u>25,173,615</u>	<u>5,979,580</u>	<u>31,153,195</u>
<u>\$ 7,707,004</u>	<u>\$ 5,590,858</u>	<u>\$ 1,363,140</u>	<u>\$ 580</u>	<u>\$ 56,964</u>	<u>\$ 35,145,500</u>	<u>\$ 5,979,580</u>	<u>\$ 41,125,080</u>

**Combining Statement of Revenues, Expenditures, and Changes in Fund Balance  
Nonmajor Governmental Funds  
For the Year Ended June 30, 2005**

	<b>Special Revenue Funds</b>					
	Storm Water	Towing	Grants	Community Development	Nauticus	Cemetery
<b>REVENUES</b>						
General property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other local taxes	-	-	-	-	-	-
Use of money and property	14,038	-	169,310	1,105,964	-	-
Charges for services	7,209,605	1,292,668	29,547	-	3,057,420	1,617,318
Miscellaneous	14,775	80,800	10,846,584	826,100	89,167	-
Intergovernmental:						
Commonwealth of Virginia	121,300	-	10,821,121	-	-	-
Federal government	363,899	-	9,417,656	6,441,905	236,960	-
<b>Total revenue</b>	<b>7,723,617</b>	<b>1,373,468</b>	<b>31,284,218</b>	<b>8,373,969</b>	<b>3,383,547</b>	<b>1,617,318</b>
<b>EXPENDITURES</b>						
General government administration	-	-	1,500,949	352,683	-	-
Judicial administration	-	-	652,915	-	-	-
Public safety	-	-	5,268,434	194,886	-	-
Public works	5,639,226	1,211,534	7,390,280	-	-	-
Health and public assistance	-	-	19,518,840	2,236,248	-	-
Cultural and recreational	-	-	503,594	-	4,172,700	1,897,534
Intergovernmental	-	-	-	5,590,152	-	-
Debt Service	-	-	-	-	-	-
Principal	-	-	11,660,250	-	-	-
Interest and other charges	-	-	-	-	-	-
<b>Total liabilities</b>	<b>5,639,226</b>	<b>1,211,534</b>	<b>46,495,262</b>	<b>8,373,969</b>	<b>4,172,700</b>	<b>1,897,534</b>
<b>Excess (deficiency) of revenue over expenditures</b>	<b>2,084,391</b>	<b>161,934</b>	<b>(15,211,044)</b>	<b>-</b>	<b>(789,153)</b>	<b>(280,216)</b>
<b>OTHER FINANCING SOURCES (USES)</b>						
Proceeds of sale of land	-	-	-	-	-	-
Note proceeds	-	-	11,660,250	-	-	-
Transfers in	-	-	8,476,791	-	852,592	280,216
Transfers out	(2,335,785)	-	(145,559)	-	-	-
<b>Total other financing sources and uses</b>	<b>(2,335,785)</b>	<b>-</b>	<b>19,991,482</b>	<b>-</b>	<b>852,592</b>	<b>280,216</b>
<b>Net change in fund balances</b>	<b>(251,394)</b>	<b>161,934</b>	<b>4,780,438</b>	<b>-</b>	<b>63,439</b>	<b>-</b>
Fund balances--beginning	930,676	165,873	10,796,506	-	115,070	-
Adjustment to beginning balance	-	-	(2,911,379)	-	-	-
<b>Fund balances--ending</b>	<b>\$ 679,282</b>	<b>\$ 327,807</b>	<b>\$ 12,665,565</b>	<b>\$ -</b>	<b>\$ 178,509</b>	<b>\$ -</b>

Special Revenue Funds							Permanent Funds	Total Nonmajor Governmental Funds
Golf Fund	Public Amenities	Land Acquisition	EOC/ 911	Tax Incentive	Expendable Trust	Total Special Revenue	Non- Expendable Trust	
\$ -	\$ -	\$ -	\$ -	\$ 397,624	\$ -	\$ 397,624	\$ -	\$ 397,624
-	4,950,790	-	4,016,005	-	-	8,966,795	-	8,966,795
-	-	165,683	-	3,038	2,122	1,460,155	104,132	1,564,287
924,564	-	-	-	-	-	14,131,122	168,788	14,299,910
108,477	-	-	742,804	-	23,585	12,732,292	-	12,732,292
-	-	-	63,618	-	-	11,006,039	-	11,006,039
-	-	-	-	-	-	16,460,420	-	16,460,420
1,033,041	4,950,790	165,683	4,822,427	400,662	25,707	65,154,447	272,920	65,427,367
-	-	-	-	-	2,395	1,856,027	-	1,856,027
-	-	-	-	-	-	652,915	-	652,915
-	-	-	5,350,961	-	-	10,814,281	-	10,814,281
-	-	-	-	-	-	14,241,040	-	14,241,040
-	-	-	-	-	-	21,755,088	-	21,755,088
740,212	561,456	-	-	-	-	7,875,496	305,580	8,181,076
-	-	-	-	-	-	5,590,152	-	5,590,152
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	11,660,250	-	11,660,250
-	-	-	-	434,401	-	434,401	-	434,401
740,212	561,456	-	5,350,961	434,401	2,395	74,879,650	305,580	75,185,230
292,829	4,389,334	165,683	(528,534)	(33,739)	23,312	(9,725,203)	(32,660)	(9,757,863)
-	-	5,390,814	-	-	-	5,390,814	-	5,390,814
-	-	-	-	-	-	11,660,250	-	11,660,250
-	-	-	861,418	-	-	10,471,017	-	10,471,017
-	(5,550,000)	-	-	(275,000)	(2,122)	(8,308,466)	-	(8,308,466)
-	(5,550,000)	5,390,814	861,418	(275,000)	(2,122)	19,213,615	-	19,213,615
292,829	(1,160,666)	5,556,497	332,884	(308,739)	21,190	9,488,412	(32,660)	9,455,752
338,298	4,961,486	34,361	922,621	309,319	289,861	18,864,071	6,012,240	24,876,311
-	-	-	-	-	(267,489)	(3,178,868)	-	(3,178,868)
\$ 631,127	\$ 3,800,820	\$ 5,590,858	\$ 1,255,505	\$ 580	\$ 43,562	\$ 25,173,615	\$ 5,979,580	\$ 31,153,195

## **Agency Funds**

**Agency funds are used to account for assets held by the City as an agent for individuals, private organizations, other governments and/or other funds:**

**Agency Fund - Other** – to account for other monies held for private organizations and other funds.

**Agency Fund – Commonwealth of Virginia** – to account for monies on deposit with the City Treasurer held for the Treasurer of the Commonwealth of Virginia.



# CITY OF NORFOLK, VIRGINIA

Exhibit G-1

## Combining Balance Sheet - Agency Funds June 30, 2005

	Other	Commonwealth of Virginia	Totals
<b>ASSETS</b>			
Cash and cash equivalents	\$ 5,917,570	\$ 31,917	\$ 5,949,487
Receivables:			
Accounts, net of allowance for uncollectible accounts	38,462	-	38,462
Total assets	<u>\$ 5,956,032</u>	<u>\$ 31,917</u>	<u>\$ 5,987,949</u>
<b>LIABILITIES</b>			
Vouchers payable	\$ 342,849	\$ -	\$ 342,849
Other liabilities	5,613,183	31,917	5,645,100
Total liabilities	<u>\$ 5,956,032</u>	<u>\$ 31,917</u>	<u>\$ 5,987,949</u>



**Combining Statement of Changes in Assets and Liabilities**  
**Agency Funds**  
**Year Ended June 30, 2005**

	Other		
	Balance July, 1,2004	Additions	Balance June, 30,2005
<b>ASSETS</b>			
Cash and cash equivalents	\$ 3,311,944	\$ 8,586,817	\$ 5,917,570
Accounts receivable	2,778	405,542	38,462
Total assets	<u>\$ 3,314,722</u>	<u>\$ 8,992,359</u>	<u>\$ 5,956,032</u>
<b>LIABILITIES</b>			
Vouchers payable	\$ 1,564,417	\$ 2,032,755	\$ 342,849
Other liabilities	1,750,305	11,037,478	5,613,183
Total liabilities	<u>\$ 3,314,722</u>	<u>\$ 13,070,233</u>	<u>\$ 5,956,032</u>

	Commonwealth of Virginia		
	Balance July, 1,2004	Additions	Balance June, 30,2005
<b>ASSETS</b>			
Cash and cash equivalents	\$ 4,562	\$ 12,903,787	\$ 31,917
Total assets	<u>\$ 4,562</u>	<u>\$ 12,903,787</u>	<u>\$ 31,917</u>
<b>LIABILITIES</b>			
Other liabilities	\$ 4,562	\$ 12,903,787	\$ 31,917
Total liabilities	<u>\$ 4,562</u>	<u>\$ 12,903,787</u>	<u>\$ 31,917</u>

	Total		
	Balance July, 1,2004	Additions	Balance June, 30,2005
<b>ASSETS</b>			
Cash and cash equivalents	\$ 3,316,506	\$ 21,490,604	\$ 5,949,487
Accounts receivable	2,778	405,542	38,462
Total assets	<u>\$ 3,319,284</u>	<u>\$ 21,896,146</u>	<u>\$ 5,987,949</u>
<b>LIABILITIES</b>			
Vouchers payable	\$ 1,568,979	\$ 14,936,542	\$ 374,766
Other liabilities	1,750,305	11,037,478	5,613,183
Total liabilities	<u>\$ 3,319,284</u>	<u>\$ 25,974,020</u>	<u>\$ 5,987,949</u>



## Internal Service Funds

**Internal service funds** are used to account for the financing of goods and services provided by one department or agency to other departments or agencies of the government and to other government units, on a cost reimbursement basis. The individual internal service funds are:

**Storehouse Fund** – to acquire and issue to the operating departments materials, parts, and supplies which are used in the same form as purchased

**Fleet Management Fund** – to provide the operating departments with maintenance, repair and service for the City fleet of vehicles, heavy equipment and miscellaneous machinery



**CITY OF NORFOLK, VIRGINIA**  
**Combining Statement of Net Assets - Internal Service Funds**  
**June 30, 2005**

Exhibit H-1

	Storehouse	Fleet Management	Total
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 77,276	\$ 2,164,424	\$ 2,241,700
Receivables, net	737	204,773	205,510
Inventories	1,351,999	410,449	1,762,448
Total current assets	<u>1,430,012</u>	<u>2,779,646</u>	<u>4,209,658</u>
Noncurrent assets:			
Capital assets:			
Buildings and equipment, net	27,465	6,370,513	6,397,978
Total noncurrent assets	<u>27,465</u>	<u>6,370,513</u>	<u>6,397,978</u>
Total assets	<u>1,457,477</u>	<u>9,150,159</u>	<u>10,607,636</u>
<b>LIABILITIES</b>			
Current liabilities:			
Vouchers/accounts payable	61,397	319,397	380,794
Due to other funds	-	3	3
Compensated absences	22,308	171,007	193,315
Accrued payroll	8,075	54,277	62,352
Obligations for Employees Retirement System	53,890	331,840	385,730
Total current liabilities	<u>145,670</u>	<u>876,524</u>	<u>1,022,194</u>
Noncurrent liabilities:			
Compensated absences	4,462	73,289	77,751
Other long-term liabilities	-	12,260	12,260
Total noncurrent liabilities	<u>4,462</u>	<u>85,549</u>	<u>90,011</u>
Total liabilities	<u>150,132</u>	<u>962,073</u>	<u>1,112,205</u>
<b>NET ASSETS</b>			
Invested in capital assets, net			
of related debt	27,465	6,358,253	6,385,718
Unrestricted	1,279,880	1,829,833	3,109,713
Total net assets	<u>\$ 1,307,345</u>	<u>\$ 8,188,086</u>	<u>\$ 9,495,431</u>

**CITY OF NORFOLK, VIRGINIA**  
**Combining Statement of Revenues, Expenses, and**  
**Changes in Fund Net Assets - Internal Service Funds**  
**For the Year Ended June 30, 2005**

Exhibit H-2

	Storehouse	Fleet Management	Total
Operating revenue:			
Charges for services	\$ 2,850,461	\$ 8,592,179	\$ 11,442,640
Miscellaneous	1,561	96,323	97,884
Total operating revenue	2,852,022	8,688,502	11,540,524
Operating expenses:			
Personal services	416,545	2,658,728	3,075,273
Cost of goods sold	2,269,596	4,544,952	6,814,548
Plant operations	8,062	338,903	346,965
Depreciation	4,641	339,302	343,943
Retirement contribution	53,890	331,840	385,730
Other	48,908	1,026,658	1,075,566
Total operating expenses	2,801,642	9,240,383	12,042,025
Operating income (loss)	50,380	(551,881)	(501,501)
Nonoperating revenue (expenses):			
Interest and investment revenue (expense)	2,122	29,742	31,864
Total nonoperating revenue (expenses)	2,122	29,742	31,864
Net income (loss) before	52,502	(522,139)	(469,637)
Change in net assets	52,502	(522,139)	(469,637)
Net assets--beginning	1,254,843	8,710,225	9,965,068
Net assets--ending	\$ 1,307,345	\$ 8,188,086	\$ 9,495,431

**CITY OF NORFOLK, VIRGINIA**  
**Combining Statement of Cash Flows - Internal Service Funds**  
**For the Year Ended June 30, 2005**

**Exhibit H-3**

	Storehouse	Fleet Management	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers	\$ 2,895,478	\$ 8,710,673	\$ 11,606,151
Payments to suppliers	(2,387,779)	(5,655,275)	(8,043,054)
Payments to employees	(462,359)	(3,008,504)	(3,470,863)
Net cash provided by operating activities	<u>45,340</u>	<u>46,894</u>	<u>92,234</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Internal activity	<u>-</u>	<u>(7)</u>	<u>(7)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Principal paid on capital debt	-	(45,019)	(45,019)
Net cash used by capital and related financing activities	<u>-</u>	<u>(45,019)</u>	<u>(45,019)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest and dividends	<u>2,122</u>	<u>29,742</u>	<u>31,864</u>
Net cash provided by investing activities	<u>2,122</u>	<u>29,742</u>	<u>31,864</u>
Net increase in cash and cash equivalents	47,462	31,610	79,072
Cash and cash equivalents - beginning of the year	<u>29,814</u>	<u>2,132,814</u>	<u>2,162,628</u>
Cash and cash equivalents - end of the year	<u>\$ 77,276</u>	<u>\$ 2,164,424</u>	<u>\$ 2,241,700</u>
<b>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities</b>			
Operating income	50,380	(551,881)	\$ (501,501)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation expense	4,641	339,302	343,943
Change in assets and liabilities:			
Receivables, net	(110)	22,172	22,062
Other assets/prepaid expenses	17,428	-	17,428
Inventories	12,659	46,918	59,577
Accounts/vouchers payables	31,790	208,319	240,109
Obligation for Employees' Retirement System	779	(87)	692
Accrued payroll	(828)	(3,422)	(4,250)
Other liabilities	(71,399)	(14,427)	(85,826)
Net cash provided by operating activities	<u>\$ 45,340</u>	<u>\$ 46,894</u>	<u>\$ 92,234</u>

# **SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**





## CITY OF NORFOLK, VIRGINIA

Exhibit I

**Schedule of Federal Expenditures  
For the Period Ended June 30, 2005**

Federal Granting Agency/Recipient Recipient State Agency/Grant program	CFDA Number	Federal Expenditures
<b><u>Department of Agriculture:</u></b>		
Direct Payments:		
USDA Summer Food Service Program (SFSP)	10.559	17,966
Food Stamp Program - Administration	10.561	\$ 3,838,551
Pass-through Payments:		
State Department of Agriculture:		
National School Breakfast Program	10.553	2,133,795
National School Lunch Program	10.555	7,164,466
National School Lunch Program (Commodities)	10.556	421,892
<b><u>Department of Housing and Urban Development:</u></b>		
Direct Payments:		
Community Development Block Grant	14.218	6,441,905
Rental Rehab	14.218	(12,501)
Salvation Army	14.231	25,498
CHDA Operating	14.231	52,386
YWCA Shelter Program	14.231	52,736
Planning Council	14.231	57,241
Ecumenical Family Services	14.231	104,125
For Kids, Inc. Haven Family Services	14.231	89,833
NRHA Administration	14.231	218,550
ESG Administration	14.231	11,600
Home Loan Program	14.239	1,306,564
Home Investment Partnership	14.239	482,953
Lead Hazzard Reduction	14.301	(68,567)
Pass-Through Payments:		
The Shelter Plus Care Program	14.239	211,124
<b><u>Department of Justice:</u></b>		
Direct Payments:		
Community Oriented Policing Services:		
Juvenile Accountability Incentive	16.523	16,371
Adult Drug Court	16.523	137,778
Alternatives to Detention	16.579	8,336
Ed Byrne Memorial Fund	16.579	(1,800)
Department of Justice - HR	16.592	-
Local Law Enforcement	16.592	5,097
Universal Hiring Program	16.592	409,526
Bulletproof Vests Grant	16.607	1,910
Safe Neighborhood Grant	16.609	104,357
CADS	16.609	146,845
Federal Forfeiture - Special Police Grant	16.700	(165,954)
COPS Grant	16.710	94,592
Bureau of Justice Grant	16.710	(91,994)
Department of Justice - Police	16.710	(27)
Pass-Through Payments:		
Department of Criminal Justice Services:		
Juvenile Sex Offender	16.203	22,936
Juvenile Accountability Incentive	16.523	71,077
Victim Witness Assistance Program	16.540	5,413
VSTOP Prosecutorial Project	16.540	46,781
Adult Drug Court	16.579	44,722
<b><u>Department of Labor:</u></b>		
Pass-Through Payments:		
Job Training Partnership Act	17.250	587,782
Local Partnership Grant	17.261	(2,721)
<b><u>Department of Transportation:</u></b>		
Pass-Through Payments:		
IV E. Human Resources Programs	20.511	(984,539)
Selective Enforcement	20.600	11,480
Virginia Port Authority	20.801	(14,530)

## CITY OF NORFOLK, VIRGINIA

Exhibit I

**Schedule of Federal Expenditures  
For the Period Ended June 30, 2005**

<b>Federal Granting Agency/Recipient</b>	<b>CFDA Number</b>	<b>Federal Expenditures</b>
Recipient State Agency/Grant program		
<b><u>Department of Homeland Security</u></b>		
Direct Payments:		
FEMA - Flood Mitigation	97.029	988,495
Disaster Relief	97.034	363,899
FEMA - Assistance to Firefighters	97.044	237,830
Pass-Through Payments:		
VA State Homeland Security	97.004	207,195
VA State EOC Grant	97.052	(187,869)
<b><u>Department of Education:</u></b>		
Direct Payments:		
Department of Defense	84.010	750,930
School Assistance in Federally Affected Areas	84.041	7,092,453
Pass-Through Payments:		
Department of Education:		
Education Consolidation and Improvement Act of 1981:		
Adult Education	84.002	365,228
Advanced Placement	84.330	10,816
Title I:		
Educationally Deprived Children- Programs Operated by LEA's	84.010	10,869,290
Comprehensive School Reform Demonstration Progr:	84.332	115,070
CSR Phase II	84.332	380,423
Chapter I:		
Evenstart Program	84.213	348,698
Title VI:		
Negligent Delinquent Children	84.010	112,333
Elementary and Secondary Education Act (ESEA):		
Title VI-B:		
Assistance to States for Education of Handicapped Children:		
Silver Grant	84.027	31,187
Autism Spectrum Disorder	84.027	891
Special Education Flow Thru (Federal)	84.027	5,942,344
Handicapped Preschool Incentive Grant	84.173	259,528
Title IV-B:		
Vocational Education:		
Sub Teach Linkage	84.048	830
Consumer and Homemaking	84.048	1,088,391
Special Projects:		
Drug Free Act	84.186	327,754
ESEA, Chapter II	84.298	216,506
School Emergency Response to Violence	84.184	115,555
McKinney Homeless Assistance	84.196	66,473
Smaller Learning Community	84.215	172,308
Comm Central	84.287	124,788
Comm Central Phase II	84.287	135,260
Teaching American History	84.298	15,084
Growing American History	84.298	41,274
Refugee School Impact Grant	84.310	2,411
Challenge Grant for Technology in Education	84.318	134,077
Region Tech Year 1	84.318	7,464
Region Tech Year 2	84.318	556,809
Educate Teachers	84.318	176,623
Gear Up High School	84.334	35,391
Gear Up Access Virginia	84.334	108,361
Teacher Training	84.336	23,870
Reading First	84.357	165,620
Reading First	84.357	474,780
Limited English	84.365	30,388
Teacher & Principal Training	84.367	2,714,685
Calculator Grant	84.369	104,196
<b><u>Department of the Navy:</u></b>		
Direct Payments:		
USS Wisconsin Grant	12.700	236,960
USS Wisconsin Grant	12.700	(29,853)
Pass-Through Payments:		
NJROTC	N/A	195,899



## CITY OF NORFOLK, VIRGINIA

Exhibit I

**Schedule of Federal Expenditures  
For the Period Ended June 30, 2005**

Federal Granting Agency/Recipient Recipient State Agency/Grant program	CFDA Number	Federal Expenditures
<b><u>Environmental Protection Agency</u></b>		
Direct Payments:		
Sewells Gardens Pump Station	66 606	68,900
EA Pump Station	66 606	132,000
Fairmont Pump Station	66 606	165,900
Haynes Track Water Distribution	66 606	56,800
<b><u>Department of Commerce</u></b>		
Direct Payments:		
Economic Development Support	11.302	(10,549)
<b><u>Election Assistance Commission</u></b>		
Pass-Through Payments		
Help America Vote Act	90.400	1,032,726
<b><u>Department of Health and Human Services:</u></b>		
Direct Payments:		
HIV/AIDS Grant	93.914	4,943,762
Homeland Security	97.004	234,509
NIC Pool Funds	N/A	213,215
Pass-Through Payments:		
Eligibility Workers - CHKD	93.243	11,500
Youth & Family Services Grant	93.556	217,868
Youth & Family Services Grant	93.556	(5,255)
Temporary Assistance to Needy Families	93.558	3,128,945
Refugee and Entrant Assistance State Administered Prog	93.566	6,173
Local-Income Home Energy Assistance	93.568	56,628
Payments to States for Child Care Assistance	93.575	4,534,396
Child Development Care	93.596	3,014,664
Child Day Care	93.596	(7,237)
Independent Living Program - Education and Training	93.599	12,912
Adoption Incentive	93.603	7,771
Foster Care - Title IV - E	93.658	3,798,113
Adoptive Assistance	93.659	965,667
Social Services Block Grant	93.667	2,766,260
Independent Living Initiative Program	93.674	49,084
FAMIS Outreach Grants	93.767	18,581
Medical Assistance Program - Administrative	93.778	3,054,764
AmeriCorps	94.006	10,436
<b><u>Other Federal Assistance:</u></b>		
Chrysler Hall Restroom Renovations	N/A	9,630
State Tourism grant	N/A	3,968
Other local grants (not specified)	N/A	90,315
Social Security Payments - Prisoners	N/A	16,000
Federal Financial Partnership Program	N/A	(29,715)
Zoo Amphitheater	N/A	(734)
Totals		<u>86,702,197</u>

**CITY OF NORFOLK, VIRGINIA**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**Year Ended June 30, 2005**

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**1. General:**

The accompanying schedule of expenditures of federal awards presents the activity of all federal awards of the City. The City of Norfolk single audit reporting entity includes the primary government and the School Board component unit, and excludes the component units of the Norfolk Redevelopment and Housing Authority and the Community Services Board.

Federal awards not received through direct programs are passed through the departments and agencies of the Commonwealth of Virginia.

**2. Basis of Accounting:**

The accompanying schedule of expenditures of federal awards is presented using the modified accrual basis of accounting. Expenditures are recorded when the liability is incurred or measurable. The related revenue is reported net of unexpended amounts returned to grantors.

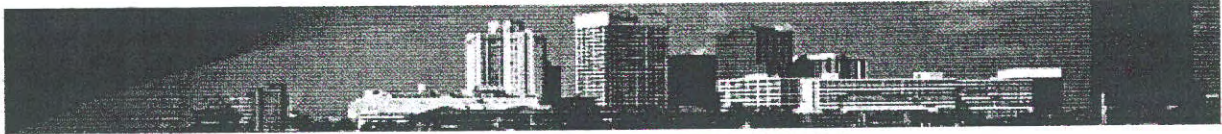
**3. Relationship to the Basic Financial Statements:**

Federal award revenue is reported in the City's basic financial statements as follows:

Governmental funds	\$ 26,619,855
Non-governmental funds	16,460,420
Total revenues from federal government	<u>43,080,275</u>
Component Unit - School Board	43,621,922
<b>Total federal financial assistance reported in basic financial statements</b>	<u><u>\$ 86,702,197</u></u>
 <b><u>Reconciliation to Exhibit A-3</u></b>	
Revenues from federal government	\$ 49,124,144
VA Port Authority Grant state funds	\$ (5,000,000)
FEMA Disaster Relief state funds	\$ (1,043,869)
Total revenues from federal government	<u>43,080,275</u>
Revenues from Commonwealth of Virginia	97,921,172
Total intergovernmental revenue	<u><u>\$ 147,045,316</u></u>

**4. Relationship to Federal Financial Reports:**

Amounts reported in the accompanying schedule agree substantially with the amounts reported in the federal financial reports except that certain federal financial reports are prepared on the cash basis of accounting and the schedule of expenditures of federal awards is prepared on the basis of accounting described in Note 2 above.



**CITY OF NORFOLK, VIRGINIA**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**June 30, 2005**

# **FINANCIAL SECTION**

**~ Independent Auditor's Report ~**

**~ Management's Discussion and Analysis ~**

**~ Basic Financial Statements ~**

**Government-wide Financial Statements**

**Fund Financial Statements**

**Notes to the Financial Statements**

**Required Supplementary Information**

**Schedules of Revenues and Expenditures – Budget and Actual**



*Financial Section*



**CITY OF NORFOLK, VA****Exhibit J-1*****Schedule of Revenues and Expenditures - Budget and Actual  
Towing Recovery Operation  
For the Year Ended June 30, 2005***

	Budget	Actual	Positive (negative) Variance
Charges for services	1,200,000	1,292,668	92,668
Other	206,000	80,800	(125,200)
Total revenue	<u>\$ 1,406,000</u>	<u>\$ 1,373,468</u>	<u>\$ (32,532)</u>
Expenditures:			
Towing recovery	<u>\$ 1,406,000</u>	<u>\$ 1,211,534</u>	<u>\$ 194,466</u>

## CITY OF NORFOLK, VA

Exhibit J-1

***Schedule of Revenues and Expenditures - Budget and Actual***  
***Storm Water Utility Fund***  
**For the Year Ended June 30, 2005**

	<u>Budget</u>	<u>Actual</u>	<u>Positive (negative) Variance</u>
Revenues:			
Use of money and property	\$ 20,000	\$ 14,038	\$ (5,962)
Charges for services	7,373,000	7,209,605	(163,395)
Other	-	499,974	499,974
Total revenue	<u>\$ 7,393,000</u>	<u>\$ 7,723,617</u>	<u>\$ 330,617</u>
Expenditures:			
Storm water	<u>\$ 7,393,000</u>	<u>\$ 7,975,011</u>	<u>\$ (582,011)</u>

**CITY OF NORFOLK, VA****Exhibit J-1*****Schedule of Revenues and Expenditures - Budget and Actual  
Nauticus*****For the Year Ended June 30, 2005**

	<u>Budget</u>	<u>Actual</u>	<u>Positive (negative) Variance</u>
Revenues:			
Total revenue	<u>\$ 4,681,900</u>	<u>\$ 4,236,139</u>	<u>\$ (445,761)</u>
Expenditures:			
Operations	<u>\$ 4,681,900</u>	<u>\$ 4,172,700</u>	<u>\$ 509,200</u>

**CITY OF NORFOLK, VA**  
***Schedule of Revenues and Expenditures - Budget and Actual***  
***Golf Fund***  
**For the Year Ended June 30, 2005**

**Exhibit J-1**

	Budget	Actual	Positive (negative) Variance
Revenues:			
Charges for services	\$ 1,019,200	\$ 1,033,041	\$ (13,841)
Expenditures:			
Operations	\$ 1,019,200	\$ 740,212	\$ 278,988



**CITY OF NORFOLK, VA**

**Exhibit J-1**

***Schedule of Revenues and Expenditures - Budget and Actual  
Emergency Operations Fund  
For the Year Ended June 30, 2005***

	<u>Budget</u>	<u>Actual</u>	<u>Positive (negative) Variance</u>
Revenues:			
Taxes	\$ 4,185,000	\$ 4,016,005	\$ (168,995)
Recovered cost	649,354	742,804	93,450
Intergovernmental - Federal	-	63,618	63,618
Operating transfers in	1,112,146	861,418	(250,728)
Total revenue	<u>\$ 5,946,500</u>	<u>\$ 5,683,845</u>	<u>\$ (262,655)</u>
Expenditures:			
Operations	<u>\$ 5,946,500</u>	<u>\$ 5,350,961</u>	<u>\$ 595,539</u>

**CITY OF NORFOLK, VA****Exhibit J-1*****Schedule of Revenues and Expenditures - Budget and Actual  
Cemeteries Fund*****For the Year Ended June 30, 2005**

	<u>Budget</u>	<u>Actual</u>	<u>Positive (negative) Variance</u>
Revenues:			
Charges for services	<u>\$ 2,043,800</u>	<u>\$ 1,897,534</u>	<u>\$ (146,266)</u>
Expenditures:			
Operations	<u>\$ 2,043,800</u>	<u>\$ 1,897,534</u>	<u>\$ 146,266</u>

**CITY OF NORFOLK, VA**  
**Schedule of Revenues and Expenditures - Budget and Actual**  
**Public Amenities Fund**  
**For the Year Ended June 30, 2005**

Exhibit J-1

	Budget	Actual	Positive (negative) Variance
Revenues:			
Taxes-Hotel & Restaurant	\$ 4,787,300	\$ 4,950,790	\$ 163,490
Rollover funds	\$ 4,300,000	\$ 4,300,000	-
Total revenue	<u>\$ 9,087,300</u>	<u>\$ 9,250,790</u>	<u>\$ 163,490</u>
Expenditures:			
Transfer to CIP Fund	\$ 5,550,000	\$ 5,550,000	\$ -
Challenge Grants	500,000	501,240	(1,240)
Future Public Amenities	3,037,300	-	3,037,300
Public Amenities	<u>\$ 9,087,300</u>	<u>\$ 6,051,240</u>	<u>\$ 3,036,060</u>

***Schedule of Revenues and Expenditures - Budget and Actual  
Fleet Internal Service Fund  
For the Year Ended June 30, 2005***

	Budget	Actual	Positive (negative) Variance
Revenues:			
Charges for services	<u>\$ 8,560,300</u>	<u>\$ 8,718,244</u>	<u>\$ 157,944</u>
Expenditures:			
Fleet	<u>\$ 8,560,300</u>	<u>\$ 9,240,383</u>	<u>\$ (680,083)</u>

***Schedule of Revenues and Expenditures - Budget and Actual  
Storehouse Internal Service Fund  
For the Year Ended June 30, 2005***

	<u>Budget</u>	<u>Actual *</u>	<u>Positive (negative) Variance</u>
Revenues:			
Charges for services	<u>\$ 556,300</u>	<u>\$ 609,306</u>	<u>\$ 53,006</u>
Expenditures:			
Storehouse	<u>\$ 556,300</u>	<u>\$ 556,803</u>	<u>\$ (503)</u>

*\*The difference in revenue and expenditures per this schedule compared to Exhibit H-2 represents cost of goods sold which is not included in the operating budget.*



CITY OF NORFOLK, VA  
Capital Improvement Program  
Schedule of Expenditures - Budget and Actual  
From Inception and for the Year Ended June 30, 2005

Capital Projects Description	Project Budget	Expenditures			
		Prior Years	Current	Total Available	
Community Development					
MacArthur Center Development	12,000,000	11,874,201	63,541	11,937,742	62,258
Neighborhood Project Development	38,188,160	20,593,029	8,370,260	28,963,289	9,204,871
Neighborhood Conservation/Revitalization	18,000,000	5,683,617	8,454,795	14,138,412	3,861,588
Broad Creek Renaissance	5,793,000	2,626,306	1,309,367	3,935,673	1,857,327
Neighborhood Streets Improvements	9,796,000	8,045,491	599,973	8,645,464	1,150,536
Neighborhood Commercial Improvements	2,906,000	967,461	283,250	1,250,711	1,655,289
Other	86,663,160	49,790,105	19,081,186	68,871,291	17,791,869
Total Community Development					
Cultural Facilities					
Attucks Theatre Renovations	2,670,000	2,670,000	0	2,670,000	0
Scope Chiller Replacements	2,760,000	2,701,889	25,376	2,727,265	32,735
Scope Improvements	5,510,000	1,319,065	842,917	2,161,981	3,348,019
Chrysler Museum Improvements	1,400,000	323,587	892,051	1,215,638	184,362
Civic Building Improvements	1,021,000	940,145	21,259	961,404	59,596
Conference Center	6,100,000	0	5,825,946	5,825,946	274,054
Cruise Terminal Development	8,750,000	0	3,158,127	3,158,127	5,591,873
Other	2,532,000	1,528,546	577,637	2,106,183	425,817
Total Cultural Facilities	30,743,000	9,483,232	11,343,312	20,826,544	9,916,456
Economic Development					
Disposition/Upgrade City Property	17,662,588	8,284,707	3,506,975	11,793,681	5,868,907
Nauticus Cruise Development	2,750,000	1,151,978	1,577,533	2,729,511	20,489
Other	1,397,521	1,154,407	28,121	1,182,528	214,993
Total Economic Development	21,810,109	10,591,091	5,114,629	15,705,720	6,104,389
General/Other					
Compostella Landfill Closure	1,500,000	1,198,749	301,251	1,500,000	0
Beach Erosion Control	12,926,000	5,139,145	4,636,618	9,775,763	3,150,237
Transfer to Debt Service	1,741,232	1,600,000	141,232	1,741,232	0
Other	2,720,642	1,363,586	748,937	2,112,523	608,119
Total General/Other	18,887,874	9,301,480	5,828,038	15,129,518	3,758,356
Public Buildings					
Fire Station Emergency Generation Program	1,059,622	832,717	109,184	941,901	117,721
Infrastructure Improvements	1,000,000	549,034	1,143	550,177	449,823
Public Health Center - Bio Med Facility	2,232,969	2,332,969	38,510	2,371,579	(138,042)
Detention Home Project	7,428,681	7,390,694	33,416	7,424,110	4,571
Annual Roof Maintenance	1,750,000	1,744,190	5,791	1,749,981	19
Library Facilities Anchor Branch Plan	5,065,238	177,944	353,684	531,628	4,533,610
Police Precinct Replacement	8,787,000	94,369	5,619,190	5,713,559	3,073,441
Courts Renovations	1,900,000	233,562	209,098	442,660	1,457,340
Jail Renovations	2,998,200	946,564	1,802,420	2,748,984	249,216
Selden Arcade Renovations	6,350,000	436,133	5,387,199	5,823,332	526,668
City Hall Building Renovations	1,525,000	720,989	251,147	972,135	552,865
Chrysler Museum	1,075,000	1,000,000	50,000	1,050,000	25,000
Other	2,897,500	1,410,536	465,962	1,876,498	1,021,002
Total Public Buildings	44,069,778	17,869,701	14,326,844	32,196,545	11,873,233



CITY OF NORFOLK, VA  
Capital Improvement Program  
Schedule of Expenditures - Budget and Actual  
From Inception and for the Year Ended June 30, 2005

Expenditures

Capital Projects Description	Project Budget	Prior Years	Current	Total	Available
Zoo Master Plan	8,890,000	8,534,909	56,835	8,591,744	298,256
Titus town Recreation Center Improvements	3,000,000	3,000,000	0	3,000,000	0
Botanical Gardens	1,400,000	577,669	645,766	1,223,435	176,565
Existing Recreation Center Improvements	3,652,000	1,041,817	704,870	1,746,688	1,905,312
Norview Recreation Center	2,200,000	0	0	0	2,200,000
Lambert's Point Golf Course	8,550,000	2,077,494	5,816,751	7,894,245	655,755
Other	1,356,000	329,484	379,742	709,225	646,775
Total Parks & Recreation	29,048,000	15,561,372	7,603,965	23,165,337	5,882,663
Schools					
Norfolk Public School Allocation	1,595,813	1,595,813	0	1,595,813	0
Taylor Elementary Replacement	1,150,000	1,109,574	(0)	1,109,574	40,426
Project Design Phase	5,757,830	3,979,510	1,778,320	5,757,830	0
Blair Middle School	3,637,710	0	3,202,475	3,202,475	435,235
Norfolk Public Schools Construction	5,698,631	3,009,431	0	3,009,431	2,689,200
Norfolk Public School Initiative	5,000,000	2,888,248	373,291	3,261,538	1,738,462
Norview Construction	26,679,400	10,336,894	5,188,072	15,524,965	11,154,435
Southside Middle School	2,250,000	0	0	0	2,250,000
High School Athletic Field	4,200,000	69,987	3,460,253	3,530,241	669,759
Other	474,324	515,819	45,826	604,401	158,506
Total Schools	56,444,708	23,506,276	14,048,235	37,554,512	18,890,196
Storm Water					
Storm Water Quality Improvements	3,166,000	1,326,753	472,429	1,799,182	1,366,818
Storm Water Facility Improvements	2,255,000	2,077,896	102,623	2,180,519	74,481
Old Dominion University Master Plan	1,374,255	1,271,844	102,411	1,374,255	0
Drain Line Clean & Sliplining	1,300,000	1,179,327	175	1,179,502	120,498
Neighborhood Flood Reduction	2,700,267	1,509,323	703,989	2,213,312	486,955
Bulkheading Master Project	2,500,000	1,407,674	15,988	1,423,662	1,076,338
Other	724,478	249,071	344,677	593,748	130,730
Total Storm Water	14,020,000	9,021,888	1,742,292	10,764,180	3,255,820
Transportation					
Old Dominion University Master Plan	7,335,000	6,324,424	148,854	6,473,278	861,722
VDOT Urban Support Program	9,450,702	6,744,986	251,684	6,996,670	2,454,032
Bridge Maintenance & Repair Program	6,798,143	2,930,179	269,030	3,199,209	3,598,934
Signal & Intersection Enhancements	5,391,000	1,186,751	2,467,228	3,655,979	1,725,021
Citywide Soundwall Program	10,544,000	1,147,058	66,832	1,213,890	9,330,110
Neighborhood Streets Improvements	6,443,500	3,417,391	1,952,885	5,370,276	1,073,224
Atlantic City Development	1,839,200	130,328	173,207	303,535	1,535,665
Other	2,483,000	1,434,997	726,193	2,161,189	321,811
Total Transportation	50,274,545	23,318,113	6,055,913	29,374,026	20,900,519
Total Capital Projects	351,951,174	168,443,259	85,144,415	253,587,674	98,373,500

# **STATISTICAL SECTION**



**CITY OF NORFOLK, VIRGINIA**  
**General Governmental Expenditures by Function (Unaudited)**  
**Last Ten Fiscal Years**

TABLE I

Fiscal Year	General Government Administration	Judicial Administration	Public Safety	Public Works	Health and Public Assistance	Education	Parks, Recreation and Cultural Enrichment	Community Development	Debt Service	Total
1996	35,870,322	6,165,476	77,926,122	31,077,170	35,241,620	227,904,487	25,795,551	10,883,099	40,891,856	491,755,703
1997	36,720,966	6,752,504	85,920,183	26,352,551	35,429,802	229,932,404	33,077,355	13,732,616	45,740,591	513,658,972
1998	36,188,247	7,722,881	86,705,932	26,327,258	36,618,924	207,023,513	35,069,244	14,502,482	49,587,664	499,746,145
1999	35,434,071	7,391,037	89,995,173	28,876,783	40,489,774	215,462,984	39,324,139	16,539,497	45,684,622	519,198,080
2000	39,086,673	7,973,128	91,929,625	30,611,202	44,310,724	235,275,491	40,505,916	20,348,088	48,398,339	558,439,186
2001	40,735,804	6,512,446	107,955,580	44,737,728	37,181,572	244,598,970	29,567,789	16,365,845	51,121,038	578,776,772
2002	42,328,092	7,230,870	112,625,249	43,963,829	45,429,443	83,882,544	30,241,641	16,944,778	48,637,132	431,283,578
2003	46,919,852	7,345,727	116,996,697	43,680,181	49,758,505	88,853,663	31,959,153	17,672,800	48,447,410	451,633,988
2004	64,386,422	35,260,950	86,236,346	67,255,473	58,326,033	90,020,000	31,858,823	8,048,376	49,551,852	490,944,275
2005	65,578,006	37,456,654	91,464,166	50,256,206	61,696,267	91,864,910	32,108,630	7,125,756	53,373,239	490,923,834

Notes:

1. This table includes General Fund, Debt Service Fund and School General Fund, which are the only funds financed by the City's General Fund Operating Budget.
2. Debt services expenditures in this table include fiscal agent's charges in addition to the amounts itemized in Table X1.
3. Beginning in FY-2002 the Education figures reflect the City's contribution to Norfolk Public Schools in accordance with GASB 34.

# CITY OF NORFOLK, VIRGINIA

TABLE II, IIA

**General Governmental Revenue by Source (Unaudited) - TABLE II**  
Last Ten Fiscal Years

Fiscal Year	General Property Taxes	Other Local Taxes	Permits, Privilege Fees and Regulatory Licenses	Fines and Forfeitures	Use of Money and Property	Charges for Services	Miscellaneous	Recovered Costs	Inter-Governmental	Total
1996	139,635,344	103,292,568	2,018,502	1,373,753	7,399,907	10,976,586	2,947,168	34,587,209	184,672,967	486,904,004
1997	142,920,221	101,130,721	2,030,715	1,304,211	9,078,810	11,515,318	4,526,540	48,835,502	182,672,501	504,014,539
1998	147,227,814	106,499,321	2,079,831	1,772,497	7,622,862	13,079,828	6,168,450	14,467,686	198,223,686	497,141,975
1999	147,831,366	111,212,019	2,505,284	1,919,987	8,991,816	13,865,238	7,291,274	11,139,044	219,871,543	524,627,571
2000	152,061,598	119,106,596	2,942,853	1,660,692	9,581,176	13,163,379	4,490,174	12,337,518	245,158,349	560,502,335
2001	153,366,476	126,536,522	2,600,873	1,683,980	10,273,560	13,217,753	4,111,221	14,135,337	258,036,874	583,962,596
2002	159,512,496	127,262,071	2,699,765	1,541,388	7,034,215	10,765,690	4,580,265	10,008,260	105,577,097	428,981,247
2003	168,892,719	128,453,471	2,972,611	1,569,454	6,785,930	11,558,415	5,032,525	9,556,223	102,846,522	437,667,870
2004	178,360,554	135,913,691	3,204,071	1,626,731	6,314,660	12,449,529	4,505,314	12,296,915	129,148,556	483,820,021
2005	192,894,904	141,510,674	3,541,516	1,763,078	7,154,235	14,829,244	5,196,567	14,187,852	113,534,988	494,613,058

- Note:
1. This table includes General Fund and School General Fund which have the only revenue included in the City's General Fund Operating Budget.
  2. Beginning in FY-2002 the Education figures reflect the City's contribution to Norfolk Public Schools in accordance with GASB 34.

**General Governmental Other Local Tax Revenue by Source (Unaudited) - TABLE IIA**  
Last Ten Fiscal Years

Fiscal Year	Sales and Use Taxes	Consumers' Utility Taxes	Business License Taxes	Motor Vehicle Licenses	Cigarette Taxes	Restaurant Food Taxes	Other	Total
1996	21,447,926	33,129,275	14,119,038	3,073,676	4,523,422	14,720,250	12,278,981	103,292,568
1997	21,349,623	30,998,963	15,071,175	3,095,033	3,777,077	15,019,435	11,819,415	101,130,721
1998	21,023,273	33,853,298	14,818,350	3,112,344	4,506,931	15,003,269	14,181,856	106,499,321
1999	22,601,880	33,189,179	15,931,734	3,307,551	4,918,212	15,676,558	15,586,905	111,212,019
2000	24,320,896	34,224,010	18,095,451	3,391,309	3,940,155	17,065,896	18,068,879	119,106,596
2001	25,495,634	38,988,006	18,352,142	3,479,472	4,121,958	18,759,238	17,340,072	126,536,522
2002	25,267,193	37,921,850	18,644,013	3,553,824	4,279,719	19,287,924	18,307,548	127,262,071
2003	25,854,211	37,929,780	18,471,519	3,462,399	4,219,586	21,680,488	16,835,488	128,453,471
2004	27,866,939	39,231,307	20,278,947	3,456,130	7,639,123	21,808,320	15,632,925	135,913,691
2005	29,497,479	39,371,385	22,014,613	2,604,937	6,947,795	22,549,666	18,524,799	141,510,674

- Note: This table presents additional details on other local taxes presented in Table II above.  
After FY-2001 figures do not include the Norfolk School Board.



**CITY OF NORFOLK, VIRGINIA**  
**Real and Personal Property Tax Levies and Collections (Unaudited)**  
**Last Ten Fiscal Years**

**TABLE III**

Fiscal Year	Total Tax Levy	Current Tax Collections	Percent of Levy Collected	Delinquent Tax Collections	Total Tax Collections	Percent of Total Tax Collections to Tax Levy	Outstanding Delinquent Taxes	Percent of Delinquent Taxes to Tax Levy
1996	137,593,231	127,974,549	93.01	9,857,483	137,832,032	100.17	16,803,874	12.21
1997	140,636,759	130,464,402	92.77	10,637,425	141,101,827	100.33	18,093,733	12.87
1998	144,793,808	134,888,759	93.16	10,726,945	145,615,704	100.57	18,549,874	12.81
1999	150,746,760	136,667,622	90.66	11,067,727	147,735,349	98.00	24,088,295	15.98
2000	158,268,196	145,772,017	92.10	14,864,889	160,636,906	101.50	22,966,676	14.51
2001	164,289,477	151,920,934	92.47	13,500,607	165,421,541	100.69	23,849,503	14.52
2002	171,755,456	158,914,465	92.53	12,882,988	171,797,453	100.02	25,353,069	14.76
2003	179,219,767	164,482,338	91.78	18,723,955	183,206,293	102.22	26,768,662	14.94
2004	191,397,362	178,199,537	93.10	15,821,033	194,020,570	101.37	19,480,809	10.18
2005	209,201,984	191,253,980	91.42	8,549,000	199,802,980	95.51	25,533,715	12.21

Note:

1. Delinquent tax collections are reported in the year collected.

## CITY OF NORFOLK, VIRGINIA

TABLE IV

Assessed Value of Taxable Property (Unaudited)  
Last Ten Fiscal Years

	(in thousands)										
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Assessed value of real property - general	\$6,761,945	\$6,798,233	\$6,872,499	\$ 7,046,440	\$ 7,327,401	\$ 7,476,357	\$ 7,802,681	\$ 8,189,358	\$ 8,648,252	\$ 9,309,404	\$ 10,297,374
Assessed value of real property - public service corporations	530,063	529,553	515,485	572,939	606,996	621,756	655,600	692,706	708,508	720,235	663,438
Total real property	7,292,008	7,327,786	7,387,984	7,619,379	7,934,397	8,098,113	8,458,281	8,882,064	9,356,760	10,029,639	10,960,812
Assessed value of personal property - general	741,092	812,624	830,554	845,023	897,065	1,021,308	1,038,672	1,100,703	1,082,578	1,166,081	1,166,081
Assessed value of personal property - public service corporations	3,206	3,043	3,558	3,080	3,011	2,318	2,257	2,280	2,449	4,036	1,592
Total personal property	744,298	815,667	834,112	848,103	900,076	1,023,626	1,040,929	1,102,983	1,085,027	1,170,117	1,167,673
Assessed value of machinery and tools	131,207	144,698	157,197	166,625	171,425	162,147	160,075	166,016	200,567	179,088	204,614
Assessed value of mobile homes	3,168	2,932	2,854	1,807	2,022	1,912	1,713	1,479	1,195	1,242	1,423
Assessed value of airplanes	8,489	8,741	5,593	5,690	7,764	6,894	13,065	13,759	14,347	20,020	20,020
Assessed value of boats	28,909	26,578	26,298	26,757	38,752	32,347	54,021	38,591	84,372	83,194	84,462
Total other	171,773	182,949	191,942	200,879	219,963	203,300	228,874	219,845	300,481	283,544	310,519
Total taxable property	\$ 8,208,079	\$ 8,326,402	\$ 8,414,038	\$ 8,668,361	\$ 9,054,436	\$ 9,325,039	\$ 9,728,084	\$ 10,204,892	\$ 10,742,268	\$ 11,483,300	\$ 12,439,004



# CITY OF NORFOLK, VIRGINIA

TABLE V

## Direct Property Tax Rates (Unaudited)

### Last Ten Fiscal Years

	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Property tax rate per										
\$100 of assessed value:										
Real property	\$ 1.40	\$ 1.40	\$ 1.40	\$ 1.40	\$ 1.40	\$ 1.40	\$ 1.40	\$ 1.40	\$ 1.40	\$ 1.40
Business Improvement District	-	-	-	0.24	0.20	0.18	0.18	0.18	0.18	0.18
Personal property	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00
Machinery and tools	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00
Mobile homes	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40
Airplanes	3.20	3.20	3.20	2.40	2.40	2.40	2.40	2.40	2.40	2.40
Boats (pleasure)	1.50	1.50	1.60	1.50	0.01	0.01	0.01	0.01	0.01	0.01
Boats (business)	1.50	1.50	1.60	1.50	1.50	1.50	1.50	1.50	1.50	1.50
Recreational vehicles	-	-	-	2.00	2.00	2.00	2.00	1.50	1.50	1.50
Disabled Veterans						3.00	3.00	3.00	3.00	3.00
Assessed value of real										
property as a percent										
of fair market value:										
As determined by the City										
Assessor	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
As determined by the										
Commonwealth's										
Department of Taxation	94%	96%	94%	93%	90%	90%	88%	88%	86%	-

Notes:

1. Cities in Virginia have jurisdiction over the entire area within their boundaries and operate independently of a county government since they are located outside of any county boundaries.
2. The real property and personal property assessments for public service corporations are based on information furnished to the Commissioner of the Revenue by the State Corporation Commission and the Commonwealth's Department of Taxation for calendar years 1994 through 2003.
3. The most recent Virginia Assessment/Sales ratio study is for 2002

# CITY OF NORFOLK, VIRGINIA

Top 10 Principal Real Property Taxpayers (Unaudited)

TABLE VI

Standard Industrial Classification (SIC) Code	North American Industry Classification System (NAICS) Code	Taxpayer	Type of Business	2004 Real Property Assessed Value	Percentage of Total Real Property Assessed Value
4812	5133	Verizon Virginia, Inc.	Public service utility	\$ 156,543,958	1.43%
4911	2211	Dominion Virginia Power	Public service utility	154,596,017	1.41%
6519	5311	Mac Arthur Shopping Center, L.L.C.	Retail	152,801,100	1.39%
4011	4821	Norfolk Southern Corporation	Public service railroad	77,259,985	0.70%
3711	3361	Ford Motor Company	Truck manufacturer	76,934,400	0.70%
6021	5221	Bank of America	Bank	72,788,200	0.66%
6519	5311	Military Circle Ltd. Partnership	Shopping center	61,169,100	0.56%
4812	5133	Cox Virginia Telecom, Inc.	Public service utility	61,046,839	0.56%
6519	5311	New Life Tower	Office building	52,428,800	0.48%
4911	2211	Virginia Natural Gas	Public service utility	36,130,614	0.33%
Total principal taxpayers				<u>\$ 901,699,013</u>	<u>8.23%</u>

Note: Total assessed value of taxable real property including public service corporations , at June 30, 2005 is \$10,960,812,421.

# CITY OF NORFOLK, VIRGINIA

## Computation of Legal Debt Margin (Unaudited)

June 30, 2005

## TABLE VII

Total assessed value of taxed real property		\$ 10,960,812,421
Debt limit - 10 percent of total assessed value		\$ 1,096,081,242
Amount of debt applicable to debt limit:		
Gross debt (Notes 1 and 4)	\$ 474,477,976	
General obligation (QRBs)	17,165,000	
General obligation (QZABs)	6,962,087	
General obligation (guaranty) (Note 5)	3,300,000	
HUD Section 108 Loan (Note 6)	13,000,000	514,905,063
Legal debt margin		\$ 581,176,179
Amount of debt as a percent of debt limit		46.98%

Notes:

1. Defeased bonds totaling \$62,435,000 are not included in gross debt. Funds to redeem these bonds have been irrevocably deposited with an escrow agent. The 1996 refunded bonds will be called for optional redemption before maturity in the amount of \$27,000,000 on June 1, 2006, at a price of 101%. The 1997 refunded bonds will be called for optional redemption before maturity in the amount of \$19,775,000 on June 1, 2007, at a price of 101%. The 1998 refunded bonds will be called for optional redemption before maturity in the amount of \$20,630,000 on July 1, 2008, at a price of 101%. The 1999 refunded bonds will be called for optional redemption before maturity in the amount of \$4,680,000 on July 1, 2009, at a price of 101%. The 2000 refunded bonds will be called for optional redemption before maturity in the amount of \$6,300,000 on July 1, 2010, at a price of 101%. The 2002 refunded bonds will be called for optional redemption before maturity in the amount of \$4,050,000 on July 1, 2012, at a price of 101%.
2. The outstanding obligations under capital leases totaling \$13,261,785 for the purchase of equipment are not included in the legal debt margin calculation. Other outstanding obligations are properly excluded. These obligations include: obligations for vested compensated absences of \$14,711,598, obligation for Employees' Retirement System of \$21,142,954 obligations for retirees' life insurance benefits of \$765,000, obligations for workers' compensation claims of \$15,742,486 obligations for automobile and general liability claims of \$1,198,649 and obligations for landfill closure and post-closure costs of \$1,506,472.
3. The amount of general obligation bonds authorized by ordinance but not issued for Capital Improvement Projects is \$32,655,546.
4. Water and Parking revenue bonds are excluded from gross debt. The revenue bonds are collateralized solely from the revenue of the Water Utility and Parking Facilities Funds.
5. Includes a General Obligation guaranty of \$3,300,000 of bonds issued by Norfolk Redevelopment and Housing Authority in August 1998, which matures on August 15, 2015.
6. Includes a 20 year \$13,000,000 Section 108 Loan with HUD, which matures on August 1, 2024.

# CITY OF NORFOLK, VIRGINIA

## TABLE VIII

Ratio of Net General Bonded Debt to Assessed Value and Net Bonded Debt per Capita (Unaudited)  
Last Ten Fiscal Years

Fiscal Year	Population	Assessed Value of Taxable Property (In Thousands)	Gross Bonded Debt	Debt Payable from Enterprise Revenue	Net Bonded Debt	Ratio of Net Bonded Debt to Assessed Value	Net Bonded Debt per Capita
1996	231,700	8,326,402	531,590,006	163,872,079	367,717,927	4.42	1,587
1997	229,600	8,414,038	539,425,001	158,819,126	380,605,875	4.52	1,658
1998	226,900	8,668,361	546,935,001	155,077,914	391,857,087	4.52	1,727
1999	225,700	9,054,436	508,805,001	141,668,034	367,136,967	4.05	1,658
2000	234,403	9,325,039	488,351,540	128,007,237	360,344,303	3.86	1,537
2001	235,391	9,728,084	468,445,247	114,528,097	353,917,150	3.64	1,504
2002	241,821	10,204,892	460,345,861	112,049,824	348,296,037	3.41	1,440
2003	241,727	10,742,268	460,876,270	99,220,319	361,655,951	3.37	1,496
2004	241,727	11,483,300	487,080,847	88,842,737	398,238,110	3.46	1,647
2005	241,727	12,439,004	527,945,478	91,085,187	436,860,291	3.51	1,807

Notes:

1. The source of calendar year population estimates for 1996 through 1999 is the Walden Cooper. The population for 2000 is the Bureau of Census. The populations figures for 2001 through 2005 are the Center for Public Service estimates
2. Assessed value of taxable property is detailed in Table IV.



# CITY OF NORFOLK, VIRGINIA TABLE IX AND TABLE X

## Revenue Bond Coverage (Unaudited) - Table IX

### Water Utility Fund

JUNE 30, 2005

Year	Revenue Available for Debt Service (1)	Operating Expenses Less Depreciation & Amortization (2)	Income Available for Debt Service	Principal	Annual Debt Service Interest	Total
1996	57,628,743	26,104,506	31,524,237	2,115,611	8,963,011	11,078,622
1997	68,487,095	26,925,589	41,561,506	2,680,000	9,989,655	12,669,655
1998	59,477,607	28,105,154	31,372,453	2,805,000	9,867,113	12,672,113
1999	73,326,682	26,067,025	47,259,657	3,113,577	11,325,353	14,438,930
2000	64,456,322	28,198,244	36,258,078	4,475,000	13,616,718	18,091,718
2001	64,459,300	28,732,203	35,727,097	4,680,000	13,411,636	18,091,636
2002	63,681,665	29,021,459	34,660,206	4,890,000	14,090,180	18,980,180
2003	67,760,029	30,867,286	36,892,743	5,700,000	14,600,283	20,300,283
2004	64,366,942	36,623,654	27,743,288	5,955,000	14,336,043	20,291,043
2005	69,183,154	37,584,692	31,598,462	6,250,000	14,041,059	20,291,059

Notes:

1. Includes operating revenue plus interest income not capitalized.
2. Includes operating expenses less depreciation and amortization.

## Revenue Bond Coverage (Unaudited) - Table X

### Parking Facilities Fund

June 30, 2005

Year	Revenue Available for Debt Service (1)	Operating Expenses Less Depreciation & Amortization (2)	Income Available for Debt Service	Annual Revenue Bond Debt Service	Revenue Bond Debt Service Coverage Ratio
1997	\$ 9,693,900	\$ 2,933,182	\$ 6,760,718	\$ 1,203,659	5.62
1998	11,193,681	3,666,490	7,527,191	2,888,783	2.61
1999	12,632,071	4,190,415	8,441,656	2,888,783	2.92
2000	15,820,975	5,495,665	10,325,310	4,621,053	2.23
2001	17,246,291	5,706,458	11,539,833	4,964,744	2.32
2002	18,427,725	7,309,883	11,117,842	5,683,455	1.96
2003	18,879,428	7,481,301	11,398,127	5,404,816	2.11
2004	21,614,695	8,503,800	13,110,840	5,683,944	2.31
2005	21,329,936	9,984,289	11,345,647	5,843,555	1.94

Notes:

1. Includes operating revenue plus interest income not capitalized.
2. Includes operating expenses less depreciation and amortization.
3. Data prior to fiscal year 1997 is not available.

# CITY OF NORFOLK, VIRGINIA

TABLE XI

## Ratio of Annual Debt Service Expenditures for General Bonded Debt and Other Debt to Total General Expenditures (Unaudited) For the Last Ten Fiscal Years

Fiscal Year	Principal on Serial Bonds	Redemption of Other Long-Term Debt	Interest on Serial Bonds	Interest on Other Debt	Total Debt Service	Total General Expenditures	Ratio of Debt Service to Total General Expenditures
1996	23,359,384	3,939,224	17,526,386	620,589	45,445,583	491,755,703	9.24
1997	26,087,051	3,473,985	19,651,778	556,073	49,768,887	513,658,972	9.69
1998	29,493,752	4,015,175	20,093,062	561,239	54,163,228	499,746,145	10.84
1999	27,280,120	3,603,355	18,403,652	457,573	49,744,700	519,198,080	9.58
2000	29,492,664	3,772,213	18,905,175	457,573	52,627,625	558,439,186	9.42
2001	32,064,594	4,138,633	19,055,944	667,364	55,926,535	578,776,772	9.67
2002	31,177,249	4,221,984	17,459,383	625,397	53,484,013	431,283,578	12.40
2003	32,449,555	4,270,903	15,993,552	544,262	53,258,272	451,633,988	11.79
2004	32,735,609	4,988,796	16,781,410	494,610	55,000,425	490,944,275	11.20
2005	35,752,761	5,157,895	17,623,223	437,894	58,971,773	490,923,834	11.91

Notes:

1. Total general expenditures include the expenditures of the General Fund, Debt Service Fund and School General Fund.
2. Total general expenditures are presented using the modified accrual basis of accounting. Under the modified accrual basis, expenditures are recognized when they become measurable and the related liability is incurred.



# CITY OF NORFOLK, VIRGINIA

## Computation of Direct Bonded Debt (Unaudited)

June 30, 2005

## TABLE XII

<u>Jurisdiction</u>	Net Bonded Debt <u>Outstanding</u>	% Applicable to <u>Government</u>	\$ Applicable to <u>Government</u>
Direct:			
City of Norfolk	\$ 436,860,291	100%	\$ 436,860,291

### Notes:

1. Enterprise funds are excluded.
2. There is no overlapping debt because cities in Virginia have jurisdiction over the entire area within their boundaries and operate independently of a county since they are located outside of any county boundaries.

**CITY OF NORFOLK, VIRGINIA**  
**Demographic Statistics (Unaudited)**  
**For the Last Ten Fiscal Years**

**TABLE XIII**

Fiscal Year	Population	Per Capita Income	School Membership	Average Annual Rate of Un- employment
1996	231,700	19,625	35,059	6.7
1997	229,600	20,353	35,677	6.4
1998	226,900	21,313	35,923	5.2
1999	225,700	22,131	35,709	5.0
2000	234,403	23,546	35,326	3.3
2001	235,391	24,862	35,000	4.3
2002	241,821	25,352	34,702	5.4
2003	241,727	25,895	34,349	6.6
2004	241,727	-	34,030	5.4
2005	241,727	-	33,708	-

Notes:

1. Data is not available for years for which no item is listed.
2. The source of calendar year population estimates for 1995 through 1999 and 2001 through 2005 is the Center for Public Service, University of Virginia. The population figure for 2000 is the 2000 Census.
3. The source of calendar year per capita income data is the Bureau of Economic Analysis.
4. School membership is for September 30 of each year; Norfolk Public Schools, Bureau of Testing and Statistics.
5. Unemployment rate is from the Virginia Employment Commission and is the average annual rate on a calendar year basis.

# CITY OF NORFOLK, VIRGINIA

TABLE XIV

## Property Value and New Construction (Unaudited) For the Last Ten Fiscal Years

Fiscal Year	Nonresidential Construction		Residential Construction			Commercial Personal Property (in Thousands)	Commercial Real Property (in Thousands)	Individual Personal Property (in Thousands)	Residential Real Property (in Thousands)	Nontaxable Property (in Thousands)
	Building Permits	Value (in Thousands)	Building Permits	Number of Units	Value (in Thousands)					
1996	46	26,147	192	214	17,024	519,199	1,739,273	449,795	4,994,277	6,118,817
1997	53	87,688	177	177	12,880	557,026	1,758,509	465,471	5,108,673	6,342,513
1998	54	79,500	192	282	24,263	574,623	1,884,971	471,279	5,365,410	6,377,080
1999	46	52,932	175	242	22,032	583,808	2,024,750	533,220	5,459,381	6,543,895
2000	45	138,472	187	307	32,609	625,137	2,159,299	599,471	5,477,479	6,807,306
2001	35	62,046	186	400	35,069	643,383	2,259,787	624,162	5,730,471	6,861,737
2002	53	51,451	290	462	44,498	678,095	2,337,440	642,454	6,121,946	7,014,866
2003	41	32,262	277	324	39,979	721,087	2,447,330	661,972	6,648,174	7,385,564
2004	71	142,658	506	601	75,801	727,413	2,620,673	722,212	7,428,994	7,924,803
2005	80	80,316	560	1191	204,391	785,970	2,784,658	790,489	8,916,075	8,299,155

Notes:

1. The source of nonresidential and residential construction is the Planning Department. Nonresidential construction includes commercial buildings, public buildings, schools, public utility buildings and miscellaneous structures.
2. Property values are based on data supplied by the Commissioner of the Revenue and the City Assessor. Real property is assessed at fair market value.
3. Property value information does not include property of public service corporations. Real property assessments shown do not include assessments for vacant land.

# CITY OF NORFOLK, VIRGINIA

TABLE XV

Water System Statistics (Unaudited)  
JUNE 30, 2005

Number of accounts	67,000
Average population served	810,000
Average daily pumpage (gallons per day)	67,300,000
Plant capacity (gallons per day)	136,000,000
Miles of water mains:	
Treated water mains	817
Raw water force mains	61
Number of fire hydrants	4,116
Average metered consumption (gallons per day):	<u>% of Total</u>
Norfolk *	19,121,000      30.4
Virginia Beach	35,222,000      55.9
Navy	5,207,000      8.3
Chesapeake	3,440,000      5.5
	<u>62,990,000      100.0</u>

\* Note: No single retail customer exceeds 5% of metered consumption.

Retail customer rates (per 1,000 gals):

Fiscal Year 1996	\$2.74
Fiscal Year 1997	\$2.84
Fiscal Year 1998	\$2.94
Fiscal Year 1999	\$3.15
Fiscal Year 2000	\$3.36
Fiscal Year 2001	\$3.36
Fiscal Year 2002	\$3.36
Fiscal Year 2003	\$3.36
Fiscal Year 2004	\$3.69
Fiscal Year 2005	\$4.02
Fiscal Year 2006	\$4.35

Wholesale customer rates (per 1,000 gals):

	Virginia Beach (1,5)	Navy-Norfolk (2)	Navy Virginia Beach (3)	Chesapeake (4)
Fiscal Year 1996	\$2.09	\$2.21	\$2.29	\$2.74
Fiscal Year 1997	\$2.43	\$2.65	\$2.74	\$2.84
Fiscal Year 1998	\$2.48	\$2.49	\$3.07	\$2.94
Fiscal Year 1999	\$2.75	\$2.77	\$3.43	\$3.25
Fiscal Year 2000	\$1.87	\$3.03	\$3.62	\$3.46
Fiscal Year 2001	\$1.88	\$3.12	\$3.62	\$3.46
Fiscal Year 2002	\$1.97	\$4.34	\$5.12	\$3.46
Fiscal Year 2003	\$2.00	\$4.52	\$5.25	\$3.46
Fiscal Year 2004	\$1.85	\$4.06	\$4.06	\$3.80
Fiscal Year 2005	\$1.86	\$4.43	\$4.43	\$4.12
Fiscal Year 2006	\$1.97	\$4.79	\$4.79	\$4.45

Note:

- (1) Estimated average cost per thousand gallons based on 30 million gallons per day (MGD) utilization. Fiscal Year 1998 based on 31.86 million gallons per day utilization. Rates are determined pursuant to the Water Sales Contract.
- (2) Estimated average cost per thousand gallons based on 6.75 MGD utilization.
- (3) Estimated average cost per thousand gallons based on 2.00 MGD utilization.
- (4) Chesapeake is currently served with no written contract, and thus pays retail rates.
- (5) For Fiscal Year 2000, Virginia Beach water rate is determined based on the formula driven rate from the Virginia Beach Water Services Contract, beginning on June 30, 1999.

Additional Information:

Water Utility Fund Annual Budget is contained in the City of Norfolk Approved Operating Budget.  
July 1, 2005 - June 30, 2006

Water Utility Fund Financial Statements are contained in the financial section "Enterprise Funds"  
of this document.



# CITY OF NORFOLK, VIRGINIA

TABLE XVI

Parking System Statistics (Unaudited)  
June 30, 2005

## Parking Rates

Off-street Daytime Parking	Tier 1	Tier 2	Tier 3
First hour or any part thereof	\$ 0.75	\$ 0.50	\$ 0.50
Two hours or any part thereof	\$ 1.50	\$ 1.25	\$ 1.00
Three hours or any part thereof	\$ 2.50	\$ 2.25	\$ 1.50
Four hours or any part thereof	\$ 4.50	\$ 3.25	\$ 2.00
Five hours or any part thereof	\$ 6.50	\$ 4.25	\$ 2.50
Six hours or any part thereof	\$ 8.50	\$ 5.25	\$ 3.00
Seven hours or any part thereof	\$ 10.50	\$ 6.25	\$ 3.50
Eight hours or any part thereof	\$ 12.50	\$ 7.25	\$ 4.00
Maximum up to 24 hours	\$ 14.00	\$ 8.00	\$ 4.50
Special event/Collect on entry	\$ 5.00	\$ 4.00	\$ 4.00

Short term rate structure for parking is based on "value parking" in a tiered structure, where rates are established based on demand. Tiered facilities are:

Tier 1	Tier 2	Tier 3
Boush Street Garage	Freemason Street	York Street Garage
Main St. Garage	Monticello Avenue	Scope Garage
Commercial Place	City Hall South	Harbor Park
Town Point Garage	Monticello Lot	
Waterside Garage		
West Plume Street		
Federal Lot		

## Short-term Parking at MacArthur Center Garages

Monday - Friday	Saturday & Sunday
\$1.00 for first hour - third hour	\$1.00 for entry prior to 6 PM
\$2.00 for each additional hour until 6 PM	\$2.00 for entry after 6 PM
\$2.00 for entry after 6 PM	
Maximum of \$10.00 per 24-hour period	Maximum of \$10.00 per 24-hour period

## Special Events

Parking rates range from \$3.00 to \$5.00 per entry depending on a facility's location to the event.

## Metered Parking

On-street meter parking has three tiered rates like the short term rates. Tiers are priced in fifteen minute intervals of: Tier 1=\$0.35, Tier 2=\$0.25, Tier 3=\$0.15. Downtown Norfolk streets west of St. Paul's Boulevard, City Hall Avenue and south, Waterside Drive and north, and all streets east of Boush Street including Boush Street are tier 1. Tier 2 includes all streets west of St. Paul's Boulevard and east of Duke Street; north of City Hall Avenue and south of Charlotte Street. All remaining downtown areas with meters are tier 3 structure.

## Monthly Parking

Parking rates vary from \$43.00 unreserved per month in outlying lots to \$128.80 reserved per month at the new West Plume Street multi-level garage.

## Parking Fines

Parking Violation	Fine Schedule
Overtime Parking - Meter	\$15.00
Overtime Parking - Time Zone	\$30.00
Overtime Parking - Meter Feeding	\$25.00
No Parking	\$30.00
No Parking - Fire Hydrant	\$50.00
No Parking - Cross Walk	\$35.00
No Parking - Loading Zone	\$30.00
No Parking - Here to Corner	\$30.00
No Parking - Facing Wrong Way	\$25.00
No Parking - Bus Stop	\$35.00
No Parking - Street Cleaning	\$35.00
No Parking - This Side	\$25.00
No Stopping Zone	\$35.00
Restricted City Lot	\$30.00
No/Expired City License	\$50.00
Handicapped Parking	\$250.00
Taxi Stand	\$35.00
Blocking Driveway	\$30.00
Overnight Parking	\$25.00
Parking off of Roadway	\$35.00
Blocking Fire Lane	\$100.00
Towing Administration Fee	\$20.00

## Fiscal Year 2004 Contractor's Collection Rate

Parking tickets were issued	69,441
Collection rate	89%
Revenue collected	\$2,493,055

**CITY OF NORFOLK, VIRGINIA**  
**Miscellaneous Statistics (Unaudited)**  
**June 30, 2005**

**TABLE XVII**

**Historical:**

Established as a town	August 16, 1682
Established as a borough	September 25, 1736
Incorporated as a city	February 13, 1845
Date of first charter	Granted by King George II September 15, 1736
Date present charter adopted	February 7, 1918
Extended Boundary	1887, 1890, 1902, 1906, 1910, 1911, 1923, 1955, 1959, 1976, 1988

Form of government: Council-Manager

**Area - Square Miles:**

1930	37.19
1940	37.19
1950	37.19
1960	61.85
1970	61.85
1980	65.75
1990	65.98
1999	65.98

The area of the City was enlarged effective July 1, 1976, by virtue of an Act of the General Assembly of Virginia, which established the boundary between the cities of Norfolk and Portsmouth along the centerline of the Elizabeth River and along the center

**Miles of Streets (estimated):**

Primary Roads	700
Secondary Roads	<u>1,318</u>
	<u><u>2,018</u></u>

Number of street lights - estimated 31,758



## CITY OF NORFOLK, VIRGINIA

TABLE XVII

Miscellaneous Statistics (Unaudited)  
June 30, 2005

Fire and Paramedical Rescue Services:			
Number of stations:		16	
Number of employees:			
Uniformed		505	
Civilian		6	
Total employees		511	
Police Protection:			
Number of patrol divisions		2	
Number of employees:			
Police (sworn officers)		746	
Civilian		127	
Total full-time employees		873	
Education:			
Number of school buildings:			
High Schools		5	
Middle Schools		9	
Elementary Schools		35	
Other educational facilities:			
Early Childhood Center		3	
Madison Career Center		1	
Special Education		3	
Coronado School (for expectant mothers)		1	
Norfolk Technical Vocational Center		1	
Meadowbrook Center		1	
Stuart Gifted Center		1	
Total buildings		60	
School employees (full-time staff)		5,325	
Number of teachers/administrators		3,320	
Average daily membership:			
**Secondary schools (middle and high)		10,640	
**Elementary schools (including f-t kindergarten)		23,192	
Total average daily membership		33,708	
**Secondary schools are per the Superintendent's report			
**Elementary schools are per the Superintendent's report			
Recreation and Culture:			
Amphitheaters (Barraud Park)		1	
Harrison Opera House		1	
Baseball/softball parks (24 fields)		3	
Basketball courts		220	
Boat ramps		6	
Canoe launches		2	
Dance/music center (Lakewood)		1	
Libraries:			
Main Library		1	
Branches		11	
Bookmobile		1	
Treasure Truck		1	
Approx. Number of volumes		827,058	
Multiple use areas (greenways)		97	
Municipal beaches (guarded)		3	
Municipal golf courses		2	
Parks (estimated acreage):			
Botanical Gardens		167	
Other parks		586	
School ground recreation areas		868	
Picnic facilities (sites)		40	
Playgrounds		123	
Recreation centers:			
Community centers		9	
Boxing center (Barraud)		1	
Neighborhood centers		7	
Therapeutic Center (Mary Calcott)		1	
Vivian C. Mason Art & Technology Center		1	
Titustown Art Center		1	
Senior citizen centers		2	
After school program centers		6	
Ball fields:			
Softball/baseball fields		76	
Football/soccer fields		52	
Field hockey fields		15	
Swimming pools (two are seasonal)		4	
Tennis courts		134	
Rugby/soccer fields		3	
Zoo		1	
Elections:			
General:		5/7/2002	5/4/2004
Registered voters		105,092	103,164
Ballots cast		19,145	5,980
Percentage voting		18.22%	5.80%
Number of City positions (excluding School Board)		5,822	
Population:			
Census population count:			
1940		144,332	
1950		213,513	
1960		305,872	
1980		266,979	
1990		261,250	
1999		225,700	
2000		234,403	
2003		241,727	
Age Distribution of population:			
	% under 20	% 20 - 64	% 65 and over
1960	39.8	54.5	5.7
1970	35.4	57.8	6.8
1980	30.7	60.1	9.2
1990	28.1	61.4	10.5
**2000	28.6	61.5	10.9
**2003	24		

\*\* Population estimated for the year 2000 are per Census 2000

\*\*Population estimated for the year 2003 are per Census 2003

# **OTHER REPORTS OF INDEPENDENT AUDITORS'**



# McGladrey & Pullen

Certified Public Accountants

**Independent Auditor's Report  
on Internal Control Over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of  
Financial Statements Performed in Accordance With  
*Government Auditing Standards***

To the Honorable Members of the City Council  
Norfolk, Virginia

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Norfolk, Virginia as of and for the year ended June 30, 2005, which collectively comprise the City of Norfolk's basic financial statements, and have issued our report thereon dated October 21, 2005. We did not audit the financial statements of Norfolk Redevelopment and Housing Authority ("NRHA"), which represents approximately 71% and 23% respectively, of the assets and revenues of the aggregate discretely presented component units of the City of Norfolk, Virginia. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for NRHA, is based on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the *Specifications for Audits of Counties, Cities and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia.

***Internal Control Over Financial Reporting***

In planning and performing our audit, we considered the City of Norfolk's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Norfolk, Virginia's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the accompanying schedule of findings and questioned costs as Item 05-1, 05-2, 05-3 and 05-4.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider reportable conditions 05-1, 05-2 and 05-3 described above, to be material weaknesses.

### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the City of Norfolk's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are that are required to be reported under *Government Auditing Standards*.

We also noted certain additional matters that we reported to management of the City of Norfolk in a separate letter dated October 21, 2005.

This report is intended solely for the information and use of the city council, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*McGladrey & Pullen, LLP*

Greensboro, North Carolina  
October 21, 2005

# McGladrey & Pullen

Certified Public Accountants

**Independent Auditor's Report  
on Compliance With Requirements Applicable to Each  
Major Federal Program and on Internal Control  
Over Compliance in Accordance With OMB Circular A-133**

To the Honorable Members of the City Council  
Norfolk, Virginia

***Compliance***

We have audited the compliance of the City of Norfolk, Virginia, with the types of compliance requirements described in the U. S. Office of Management and Budget ("OMB") Circular A-133, *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. The City of Norfolk's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Norfolk's management. Our responsibility is to express an opinion on the City of Norfolk's compliance based on our audit.

The City of Norfolk's basic financial statements include the operations Norfolk Redevelopment and Housing Authority ("NRHA"), which is one of the discretely presented component units of the City of Norfolk. Our audit, described below, did not include the operations of NRHA, a discretely presented component unit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Norfolk's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Norfolk's compliance with those requirements.

In our opinion, the City of Norfolk complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 05-5, 05-6 and 05-7.

### ***Internal Control Over Compliance***

The management of the City of Norfolk is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Norfolk's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the city council, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*McGladrey & Pullen, LLP*

Greensboro, North Carolina  
October 21, 2005



City of Norfolk, Virginia

Schedule of Findings and Questioned Costs  
Year Ended June 30, 2005

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I - Summary of Independent Auditor's Results

Financial Statements

Type of auditor's report issued:	Unqualified	
Internal control over financial reporting:		
Material weakness(es) identified?	<u>  X  </u> Yes	<u>      </u> No
Reportable condition(s) identified that are not considered to be material weakness(es)?	<u>  X  </u> Yes	<u>      </u> None Reported
Noncompliance material to financial statements noted?	<u>      </u> Yes	<u>  X  </u> No

Federal Awards

Internal control over major federal programs:		
Material weakness(es) identified?	<u>      </u> Yes	<u>  X  </u> No
Reportable condition(s) identified that are not considered to be material weakness(es)?	<u>      </u> Yes	<u>  X  </u> None Reported
Type of auditor's report issued on compliance for major federal programs:	Unqualified	
Any audit findings disclosed that are required to be reported in accordance with Section .510(a) OMB Circular A-133?	<u>  X  </u> Yes	<u>      </u> No

Identification of major federal programs:

<u>Program Name</u>	<u>CFDA</u>
Medical Assistance	93.778
Child Day Care Cluster	93.575 and 93.596
HIV/AIDS	93.914
Foster Care Title IV-E	93.658
Title IV-B Cluster	84.027 and 84.173
Teacher & Principal Training	84.367

Dollar threshold used to distinguish between type A and type B programs:	<u>  \$      2,601,066  </u>
Auditee qualified as low-risk auditee	<u>  X  </u> Yes <u>      </u> No

(Continued)

**Schedule of Findings and Questioned Costs (Continued)**  
**Year Ended June 30, 2005**

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**II. Financial Statement Findings**

**MATERIAL WEAKNESS IN INTERNAL CONTROL**

**Finding 05-1**

Criteria: A governmental entity is required by generally accepted accounting principals to calculate and record depreciation on capital assets using any established depreciation method. Capital assets considered to be construction in process should be closed out when completed and moved to a depreciable asset and assets disposed of should be removed from the capital asset calculation.

Condition: Capital asset software does not appear to adequately close out the projects from construction in progress when they are considered to be complete and moved over to a depreciable capital asset, thereby doubling up on the amount of certain capital assets in the prior year. Also assets were disposed of in the prior year along with the related accumulated depreciation but were still included in capital assets in the prior year.

Effect: Incorrect amounts were reported as capital assets in the amount of \$5,689,302.

Cause: Deficiencies in internal controls within reviewing the amounts moved from construction in progress to a depreciable asset and proper removal of assets once they are disposed.

Recommendation: Immediate change to the type of system used to keep track of the capital assets and implement a process for reviewing amounts generated by the system to ensure adequate representation of capital assets.

Management Response: Management concurs with the finding. This finding has been corrected and the prior year's capital asset balance was restated. We are in the process of acquiring a new accounting system that can handle our fixed and capital asset tracking requirements. Until then, we have instituted new control procedures.

(Continued)

**City of Norfolk, Virginia**

**Schedule of Findings and Questioned Costs (Continued)**  
**Year Ended June 30, 2005**

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**II. Financial Statement Findings**

**MATERIAL WEAKNESS IN INTERNAL CONTROL**

**Finding 05-2**

Criteria: Financial statements for governmental funds should be presented using the current management focus and the modified accrual basis of accounting. Revenues should be recorded in the period in which they become available and measurable.

Condition: A detailed reconciliation of the prior year special revenue funds yielded an incorrect posting of a journal entry to the fund related to grant funding.

Effect: Material restatement of the numbers represented in the prior year special revenue fund in the amount of \$3.1 million.

Cause: Deficiencies in the design or operation of internal control over the review of entries posted for the reimbursement of certain expenditures incurred.

Recommendation: All entries should be reviewed by various levels of management. Report type entries made at the last minute should be reviewed by upper level management to determine that the entry is appropriate given the circumstances.

Management Response: We concur. The finding has been corrected and proper review procedures instituted.

(Continued)

**Schedule of Findings and Questioned Costs (Continued)**  
**Year Ended June 30, 2005**

---

**Financial Statement Findings**

**MATERIAL WEAKNESS IN INTERNAL CONTROL**

**Finding 05-3**

Criteria: A governmental entity is required by United States generally accepted accounting principles to calculate and record depreciation on capital assets using any established depreciation method. Capital assets should be depreciated over their estimated useful lives.

Condition/Context: The School Board converted to a new accounting software package in the current year. Previously, depreciation was calculated on assets grouped by lots. Depreciation of each lot was based on a single placed in service date regardless of the age of the assets grouped in the lot. The new accounting software calculates depreciation on individual assets. In the new system, asset lots accumulate the depreciation of the assets within the lot. Accordingly, the two systems calculated different amounts of accumulated depreciation at year-end. Since the new system calculates depreciation by asset, the School Board determined the previous method of calculating depreciation to be incorrect.

Effect: Incorrect amounts were reported as depreciation expense and accumulated depreciation in prior years. The calculated accumulated depreciation difference as of July 1, 2004 amounted to approximately \$4.5 million.

Cause: Significant deficiencies in the design of the capital asset system.

Recommendation: We recommend that the Board implement additional controls and procedures regarding management estimates effecting financial reporting.

Management Response: Management concurs with the finding. This is a one-time occurrence that was identified by management during the transition to a new financial accounting system. This finding has been corrected and assets are depreciated within MUNIS on an individual basis. The prior year Net Assets were restated.

(Continued)

**City of Norfolk, Virginia**

**Schedule of Findings and Questioned Costs (Continued)**  
**Year Ended June 30, 2005**

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**Financial Statement Findings**

**Finding 05-4**

Criteria: An entity is required by generally accepted accounting principles to record capital assets with a useful life of greater than one year, and cost above the entity's capitalization policy, when it is placed in service, and to depreciate such assets over the estimated useful life.

Condition/Context: During the year, the School Board's capital assets (school buses) were capitalized after they were placed in service. These assets were expensed in prior periods, instead of being capitalized as required by US GAAP. The controls in place to identify such assets failed to detect these assets in a timely manner for capitalization and the proper safeguarding of these assets.

Effect: Capital assets were not capitalized in a timely manner in accordance with US GAAP. Safeguards of such assets were mitigated due to the entity not knowing or having a record of these assets. Items identified amounted to approximately \$2.4 million.

Cause: Significant deficiencies in the design or operation of the internal control of the detection and potential capital assets as they are reviewing the cash disbursement reports. They are supposed to "flag" the invoices so that they can be pulled out for review by employees responsible for capital assets. This control failed due to these employees not identifying capital assets in the review of invoices and cash disbursements.

Recommendation: We recommend that the Board implement proper controls and procedures regarding items that have the potential of being capitalized, and reduce the amount of human judgment as much as possible. For vendors whom the entity regularly purchases items over the \$5,000 threshold, have the system automatically "flag" these vendors so that the employees who handle fixed assets can review the invoices and make the determination whether or not to capitalize the assets on the invoice.

Management Response: Management concurs with the finding. The delay in recording the assets (school buses) was due to the delay in receiving the official titles for ownership. The appropriate "flags" will be set in the new MUNIS system. The prior year Net Assets were restated.

(Continued)

City of Norfolk, Virginia

Schedule of Findings and Questioned Costs (Continued)  
Year Ended June 30, 2005

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III - Federal Award Findings and Questioned Costs

Finding 05-5

Category: Eligibility

Grant: Medical Assistance 93.778

Criteria: Adequate documentation should be included in a recipients file.

Condition: Inadequate documentation is maintained in many of the recipients' file to support changes or any other condition related to the administration of the program. This has been a comment by the State of Virginia during their review of the program administration.

Effect: More time spent tracking down information to support eligibility for a recipient or potential individual determined to be eligible when they should not.

Cause: Lack of self reviews of the file by the locality and the individuals determining the eligibility.

Questioned costs: Appears to be none since the information was in the State's ADAPT system and the information that was in the case file was tied to the ADAPT system. The State has not mandated any payback of funding based on their review.

Recommendation: Staff involved with determining eligibility should ensure that all documents are maintained in the files by performing a self review of the file. All documentation relevant to the recipient if not in the State's system should be maintained in the file.

Management Response: Management agrees with the finding.

(Continued)



**Schedule of Findings and Questioned Costs (Continued)**  
**Year Ended June 30, 2005**

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**III - Federal Award Findings and Questioned Costs (Continued)**

**Finding 05-6**

**Category: Eligibility**

**Grant: Medical Assistance 93.778**

Criteria: All files where an individual was determined to be eligible or ineligible should be maintained and available for review.

Condition: Two of the thirty-five files that were examined could not be located for review.

Effect: It was determined by the State's ADAPT system that these missing case files were denied benefits but based on the State's random moment sampling of time for eligibility for this program, the locality could have received a reimbursement for the time the staff spent on the case file. Also, the information could have possibly been entered incorrectly into the ADAPT system and a review of the file could have determined the recipient(s) to be eligible for assistance.

Cause: Misplaced file by the staff or locality.

Questioned costs: None since program administrative cost are reimburseable whether or not the applicant is approved or denied benefits.

Recommendation: Staff should ensure that all files are placed back in their respective work stations before leaving each night and any files where the eligibility has been determined to be denied should be located at a central area.

Management Response: Management agrees with the finding.

(Continued)

City of Norfolk, Virginia

Schedule of Findings and Questioned Costs (Continued)  
Year Ended June 30, 2005

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III - Federal Award Findings and Questioned Costs (Continued)

Finding 05-7

Category: Eligibility

Grant: Medical Assistance 93.778

Criteria: Recipients must be redetermined every 12 months to determine that they are still eligible for assistance.

Condition: One of the thirty-five recipients picked for review was not redetermined within the Medicaid programs' required 12 month cycle.

Effect: Since the benefits are paid directly by the State of Virginia then this recipient could be receiving payments for which they are no longer eligible.

Cause: Lack of reviews of cases that are coming up for redetermination.

Questioned costs: Appears to be none for the locality since the only funding for the locality is a reimbursement for the time that an individual spends on the file and in this case no time was spent in the current year on the case.

Recommendation: The locality should review the ADAPT's system to see if there are any cases where a redetermination has been missed and schedule a redetermination at that moment. If possible, review the listing each month to determine ones that will be coming up for redetermination in the following two months and send out appropriate letters to the recipients.

Management Response: Management agrees with the finding.

**City of Norfolk, Virginia**

**Corrective Action Plan  
Year Ended June 30, 2005**

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**Financial Statement Findings**

**Finding 05-1:**

Name of Contact Person: Steve de Mik, Director of Finance

Corrective Action: See "Management Response" in Section II - Financial Statement Findings

Proposed Completion Date: Immediately

**Finding 05-2:**

Name of Contact Person: Steve de Mik, Director of Finance

Corrective Action: See "Management Response" in Section II - Financial Statement Findings

Proposed Completion Date: Immediately

**Finding: 05-3**

Name of Contact Person: Frederick J. Schmitt  
Chief Finance Officer, School Board

Corrective Action: See "Management Response" in Section II – Financial Statement Findings.

Proposed Completion Date: Immediately

**Finding: 05-4**

Name of Contact Person: Frederick J. Schmitt  
Chief Finance Officer, School Board

Corrective Action: See "Management Response" in Section II – Financial Statement Findings.

Proposed Completion Date: Immediately

(Continued)

**City of Norfolk, Virginia**

**Corrective Action Plan  
Year Ended June 30, 2005**

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**Federal Award Findings**

**Finding 05-5:**

Name of Contact Person: Steve de Mik, Director of Finance

Correction Action: See "Management Response" in Section II - Financial Statement Findings

Proposed Completion Date: Immediately

**Finding 05-6:**

Name of Contact Person: Steve de Mik, Director of Finance

Correction Action: See "Management Response" in Section II - Financial Statement Findings

Proposed Completion Date: Immediately

**Finding 05-7:**

Name of Contact Person: Steve de Mik, Director of Finance

Correction Action: See "Management Response" in Section II - Financial Statement Findings

Proposed Completion Date: Immediately

**City of Norfolk, Virginia**

**Corrective Action Plan  
Year Ended June 30, 2005**

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**Federal Award Findings**

**Finding 05-5:**

Name of Contact Person: Steve de Mik, Director of Finance

Correction Action: See "Management Response" in Section II - Financial Statement Findings

Proposed Completion Date: Immediately

**Finding 05-6:**

Name of Contact Person: Steve de Mik, Director of Finance

Correction Action: See "Management Response" in Section II - Financial Statement Findings

Proposed Completion Date: Immediately

**Finding 05-7:**

Name of Contact Person: Steve de Mik, Director of Finance

Correction Action: See "Management Response" in Section II - Financial Statement Findings

Proposed Completion Date: Immediately